DEPARTMENT OF DEFENSE

AUDIT REPORT

THE SPARE PARTS BREAKOUT PROGRAM

No. 90-056 April 5, 1990

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Abstract
This is our final report on the Audit of the Spare Parts Breakout Program for your information and use. Comments on a draft of this report were considered in preparing the final report. The audit *was made from June 1987 through January 1989 at the request of the Deputy Secretary of Defense. The overall audit objective was to evaluate the cost-effectiveness of the Spare Parts Breakout Program. We also determined if the Spare Parts Breakout Program was effective; if contractors furnishing spare parts were identifying the actual manufacturers of items in accordance with the Defense frocuremedt Reform Act of 1984; and if DOD procurement activities promptly implemented prime contractor recommendations for spare parts breakout. In fiscal years 1986, 1987, and 1988, DOD reported savings of $421.7 million, $489 million, and $633.8 million, respectively, from the Spare Parts Breakout Program. Progress toward implementation of the DoD Spare Parts Breakout Program has improved since issuance of the Secretary of Defense Spare Parts Initiatives in 1983. For example, in 1986 and 1987 over 610,000 spare parts were screened with 113,000 of them coded for purchase from the actual manufacturer rather than from the psime contractor. Also, 124,000 spare parts were coded for competitive procurement. This demonstrates the commitment by the Services, the Defense Logistics Agency and the Department of Defense in general to improve spare parts procurement. While the Military Departments and the Defense Logistics Agency have dedicated significant resources to the Spare Parts Breakout Program and have reported savings, further improvements in consistency and comprehensiveness are needed for a more effective Breakout Program, Also, planning for breakout to competitive procurement has not been performed by breakout personnel early enough that sources of supply can be-identified and technical data (drawings) obtained from prime contractors or actual manufacturers. The results of the audit are summarized in the following paragraphs, and the details, together with the audit recommendations, are contained in Part II of this report.

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

April 5, 1990

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Audit of the Spare Parts Breakout Program (Report No. 90-056)

This is our final report on the Audit of the Spare Parts Breakout Program for your information and use. Comments on a draft of this report were considered in preparing the final report. The audit was made from June 1987 through January 1989 at the request of the Deputy Secretary of Defense. The overall audit objective was to evaluate the cost-effectiveness of the Spare Parts Breakout Program. We also determined if the Spare Parts Breakout Program was effective; if contractors furnishing spare parts were identifying the actual manufacturers of items in accordance with the Defense Procurement Reform Act of 1984; and if DoD procurement activities promptly implemented prime contractor recommendations for spare parts breakout. In fiscal years 1986, 1987, and 1988, DoD reported savings of $421.7 million, $489 million, and $633.8 million, respectively, from the Spare Parts Breakout Program.

Progress toward implementation of the DoD Spare Parts Breakout Program has improved since issuance of the Secretary of Defense Spare Parts Initiatives in 1983. For example, in 1986 and 1987 over 610,000 spare parts were screened with 113,000 of them coded for purchase from the actual manufacturer rather than from the prime contractor. Also, 124,000 spare parts were coded for competitive procurement. This demonstrates the commitment by the Services, the Defense Logistics Agency and the Department of Defense in general to improve spare parts procurement.

While the Military Departments and the Defense Logistics Agency have dedicated significant resources to the Spare Parts Breakout Program and have reported savings, further improvements in consistency and comprehensiveness are needed for a more effective Breakout Program. Also, planning for breakout to competitive procurement has not been performed by breakout personnel early enough that sources of supply can be identified and technical data (drawings) obtained from prime contractors or actual manufacturers. The results of the audit are summarized in the following paragraphs, and the details, together with the audit recommendations, are contained in Part II of this report.

The Military Departments and the Defense Logistics Agency were unable to accurately determine the cost-effectiveness of their Spare Parts Breakout Programs, and they did not fully screen parts with high-value requirements to achieve the highest savings. Also, savings of $28.7 million, that the four inventory control points we sampled reported to OSD during the period of July 1, 1986, through June 30, 1987, were overstated by $8.2 million because of reporting errors and by another $8.0 million because each inventory control point used different criteria to determine savings. Finally, reported breakout screening program costs were based on a combination of actual expenditures, budgeted amounts, estimates, and obligations. We recommended that the Assistant Secretary of Defense (Production and Logistics) establish a working group to develop guidance that will be used to consistently determine costs and report savings for both full and limited screening efforts. We also recommended that the Assistant Secretary implement a uniform system to calculate and report historical Spare Parts Breakout Program savings and costs. Finally, we recommended that the Assistant Secretary give priority to full screening of high buy value parts rather than limited screening (page 5).

Spare parts were incorrectly coded and not fully screened. As a result, buyers did not have current breakout information when purchasing spare parts from contractors. We also estimated that 35,585 parts had been assigned incorrect Acquisition Method Codes and that $90.1 million in additional costs were incurred on the acquisition of 9,135 parts due to restrictive technical data packages. We recommended that the Military Departments and the Defense Logistics Agency direct screening and coding personnel to update Acquisition Method Codes in a timely manner, assign Codes to all parts in inventory, request missing or incomplete technical data, and challenge limited technical data rights restrictions. We recommended that the Commander, Navy Aviation Supply Office, establish a mechanism for communicating information on supply sources between screening and purchasing activities. We also recommended that the Commander, Defense Construction Supply Center, recognize dealers and other nonmanufacturing sources as valid sources when assigning Acquisition Method Codes (page 13).

The audited activities' contract actions for approximately 40 percent of the spare parts procured did not contain the required Source-of-Supply Clause, and the Navy Aviation Supply Office did not use the Source-of-Supply Clause during the audit period. In addition, for about 65 percent of the spare parts procured where the contract action required identification of source-of-supply data, the contractors did not provide such data. In a separate sample to identify purchases that were not from actual manufacturers, we estimated that the Aviation Systems Command (AVSCOM), the Aviation Supply Office (ASO), the San

Antonio Air Logistics Center (SAALC), and the Defense Construction Supply Center (DCSC) incurred $17.4 million in pass-through costs on 2,375 parts. We recommended that the Assistant Secretary of Defense (Production and Logistics) issue guidance to the Military Departments and the Defense Logistics Agency that makes source-of-supply data a contract line item. We recommended that the Military Departments and the Defense Logistics Agency require contracting personnel to request source-of-supply data from all available sources when source-of-supply data has not been previously obtained (page 25).

In the preceding paragraphs, we conservatively estimated monetary benefits of $107.5 million at the four sampled buying activities. We recognize that total savings may diminish because budgetary resources for spare parts acquisition have been reduced. However, we concluded that, because the internal control weaknesses were systemic, similar conditions may exist and that additional monetary benefits may be realized at the other 13 buying activities.

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. The deficiencies related to the accuracy of accumulating and reporting costs and savings through breakout, and to screening items for breakout. The lack of uniform breakout policies and procedures resulted in inaccurate and misleading reports on the program's cost-effectiveness. Inaccurate and incomplete screening of spare parts further contributed to the reporting problem and reduced the program's effectiveness. Implementation of our recommendations should correct the deficiencies. We have estimated that the monetary benefit that can be realized by implementing the recommendations in Finding B is $90.1 million. Also, we estimated that monetary benefits of $17.4 million can be realized by implementing Recommendation C.2. A copy of this report will be provided to the senior officials responsible for internal controls in your department or agency.

We provided a draft of this report to the addressees on August 28, 1989, and requested that comments be provided by October 30, 1989. We received comments from the Assistant Secretary of Defense (Production and Logistics) on November 2, 1989; the Under Secretary of the Army on October 30, 1989; the Assistant Secretary of the Navy (Shipbuilding and Logistics) on October 27, 1989; the Assistant Vice Chief of Staff of the Air Force on November 17, 1989; and the Comptroller, Defense Logistics Agency on November 13, 1989. The comments are summarized in Part II of this report, and the complete texts of the responses are in Appendixes K, L, M, N, and O.

The Assistant Secretary of Defense (Production and Logistics) concurred with Recommendations A.1., A.2., A.3., and

C.1., to improve the cost-effectiveness of the DoD Spare Parts Program. The Assistant Secretary's reply conformed to the provisions of DoD Directive 7650.3 and was considered fully responsive to the recommendations.

The Army fully concurred with all findings, the monetary benefits concerning the Army Aviation Systems Command, and Recommendation C.2. The Army concurred with and provided comments to Recommendation B.1. The Army's response did not fully comply with the requirements of DoD Directive 7650.3 because the response did not give the estimated implementation dates for the actions to be taken. Accordingly, we request that the Army provide the estimated implementation dates in its reply to the final report.

The Navy concurred with Finding C and Recommendations B.3. and C.2. and partially concurred with Findings A and B and Recommendation B.1. The Navy nonconcurred with the estimated monetary benefits identified in Finding B. The Navy's response did not comply with the requirements of DoD Directive 7650.3 because the comments did not indicate concurrence or nonconcurrence with the estimated monetary benefits identified in Finding C and did not provide the estimated issuance date for the policy and procedures memorandum to implement Recommendation C.2. We are requesting that the Navy reconsider its position on the monetary benefits identified in Finding B, provide its position on the monetary benefits identified in Finding C, and provide the implementation date for Recommendation C.2. in the reply to the final report.

The Air Force concurred with Recommendations B.1. and C.1. and generally agreed with all findings. The Air Force's reply did not fully comply with the requirements of DoD Directive 7650.3 because the response did not identify specific actions that had been or would be taken to implement Recommendation B.1. and was nonspecific on the estimated additional costs identified in Findings B and C. We are requesting that the Air Force identify corrective action taken or to be taken to implement Recommendation B.1., and respond to the estimated additional costs identified in Findings B and C in its reply to the final report.

The Defense Logistics Agency partially concurred with all findings and Recommendation B.1., and nonconcurred with Recommendations B.2. and C.2. and the estimated potential monetary benefits identified in Findings B and C. We have reviewed the comments and have not changed our conclusions. We are requesting that the Defense Logistics Agency reconsider its position on Recommendations B.2. and C.2., and the potential monetary benefits identified in Findings B and C. The comments received from the Air Force support the need for Recommendation B.2.

Based on the Army's and Navy's comments, we revised Recommendation B.1. in the final report to state that screening and coding personnel should be required to assign Acquisition Method Codes to all parts in the inventory that are expected to be procured. We consider the concurrences with the findings as managements' concurrences with the internal control weaknesses described in the report.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. The Army, Navy, Air Force, and Defense Logistics Agency should provide their responses to this report with additional information within 60 days of the date of the report.

Please contact Mr. Garold E. Stephenson, Program Director, at (202) 694-6275 (AUTOVON 224-6275) or Mr. Gary Padgett, Project Manager, at (202) 694-3459 (AUTOVON 224-3459) if you have any questions concerning the final report. Copies of this report are being provided to the activities listed in Appendix S.

The cooperation and courtesies extended to our audit staff are appreciated. The list of Audit Team Members is in Appendix R. We also want to thank the Defense Contract Audit Agency and the Defense Contract Administration Services for their assistance in determining the actual manufacturers of sample spare parts.

Stephen A. Trodden
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

FINAL REPORT ON THE AUDIT OF THE SPARE PARTS BREAKOUT PROGRAM

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Prepared by:
Acquisition Management Directorate
Project No. 7AP-5019

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REPORT ON THE AUDIT OF THE SPARE PARTS BREAKOUT PROGRAM

PART I - INTRODUCTION

Background

Spare parts are purchased to replace or repair those parts or assemblies that wear out, malfunction, or break. There are approximately 4 million spare parts in the DoD inventory system, procured by the Military Departments and the Defense Logistics Agency (DLA). The DoD budget for the purchase of spare parts was $18.7 billion in FY 1987, $17.1 billion in FY 1988, and $17.5 billion in FY 1989.

Spare parts buying is separated into two categories - initial spares and replenishment spares. Initial spares are procured as a result of the provisioning process during weapon system acquisition. Replenishment spares are procured to restock the inventory as initial spares are used by operating and maintenance activities. An inventory control point and a specific inventory manager are designated for each type of replenishment spare part. DoD has 17 inventory control points that procure replenishment spare parts.

According to Defense Acquisition Regulations (DAR), Supplement No. 6, "DoD Replenishment Parts Breakout Program," June 1, 1983, DoD policy is to procure spare parts competitively whenever feasible. This is not always possible because of limited technical data rights, inadequate quantities, emergency buys, and other factors. When a part cannot be competitively purchased, the DoD goal is to buy directly from the actual manufacturer and avoid pass-through costs (prime contractor overhead and profit). "Breakout" (purchasing a part from other than the prime weapon system contractor) can be accomplished by buying the part either from the actual manufacturer or from other market sources through competition. DoD prefers to implement breakout through competition.

The DoD Spare Parts Breakout Program has existed for more than 25 years. On June 1, 1983, the Under Secretary of Defense for Research and Engineering approved DAR, Supplement No. 6, to revitalize, expand, and update the earlier version of the Breakout Program implemented by a Joint Services Regulation entitled "DoD High Dollar Spare Parts Breakout Program," dated March 1969. The 1983 guidance was issued as part of the Spare Parts Management Improvement Initiatives set forth by the Secretary of Defense on July 25, 1983, and August 29, 1983.

DAR, Supplement No. 6, encourages early identification, selection, and screening of spare parts for breakout consideration. It fixes responsibility for execution of the breakout program; enhances the cost savings objective of breakout; and revises procedures for breakout screening or assigning Acquisition Method Codes. The DAR Supplement provides for two types of screening--full and limited. Full screening, DoD's preferred method, is a comprehensive examination and cost benefit analysis of the reasons a part is not fully competitive. Limited screening, which covers only selected points of data and technical evaluations, is appropriate when full screening cannot be completed in sufficient time to support an immediate buy requirement. Limited or full screening can take place when parts enter the inventory, when they are identified for future purchase, or when there is an immediate buy request. DAR, Supplement No. 6, also establishes a $10,000 annual buy value as a minimum threshold for screening replenishment spare parts for breakout from the prime contractor. Determining the availability of technical data, which is a major inhibitor to breakout, is part of the screening process.

Breakout of replenishment spare parts is a significant aspect of the DoD Spare Parts Management Improvement Program. In fiscal years 1986 and 1987, about 309,000 and 303,000 spare parts, respectively, were screened by the Military Departments and DLA to determine if the parts were suitable for acquisition from the actual manufacturer or through competition. In fiscal years 1986 and 1987 about 62,000 and 51,000 spare parts, respectively, were coded by the Military Departments and DLA for procurement from the actual manufacturer, and about 61,000 and 63,000 spare parts, respectively, were coded for competitive acquisition. The Military Departments and DLA reported breakout savings of $421.7 million in fiscal year 1986, $489 million in fiscal year 1987, and $633.8 million in fiscal year 1988.

Objectives and Scope

The Deputy Secretary of Defense requested the audit to determine if the Spare Parts Breakout Program was cost-effective. Additional objectives included determining if:

- the Spare Parts Breakout Program was effective,

- contractors furnishing spare parts were identifying the actual manufacturers of the items in accordance with the Defense Procurement Reform Act of 1984, and

- DoD procurement activities promptly implemented prime contractor recommendations for spare parts breakout.

We randomly selected 540 spare parts at the Army Aviation Systems Command, the Navy Aviation Supply Office, the San Antonio Air Logistics Center, and the Defense Construction Supply Center to evaluate the reliability of program data. We reviewed screening and procurement documents and talked with screening and procurement personnel (both management and non-management). Our statistical sampling plans were used to estimate potential overpricing of spare parts due to loss of competition and to estimate pass-through costs because actual manufacturers were not identified. Our sampling plans, and their results, are contained in Appendixes B through G. We evaluated the system of internal controls for screening spare parts for breakout, and accumulating and reporting costs and savings for the Spare Parts Breakout Program. The audit covered transactions for the period July 1, 1986, through June 30, 1987. We made this program results audit from June 1987 through January 1989. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix Q.

Prior Audit Coverage

During the last 5 years, the General Accounting Office, the Military Departments, and the DoD Inspector General issued 11 audit reports that addressed problems with spare parts breakout. These reports addressed the lack of instructions for reporting savings and costs of spare parts breakout, which resulted in inconsistencies and distortions of amounts reported. Also, the reports found that spare parts were overpriced because they were not purchased from the actual manufacturer or they were purchased noncompetitively. The reports criticized the breakout coding system because it lacked flexibility and was subject to varying interpretations. Appendix A contains synopses of the 11 audit reports.

Other Matters of Interest

On November 25, 1988, DAR, Supplement No. 6 was updated with the issuance of Defense Federal Acquisition Regulation Supplement, Supplement No. 6. This revised supplement expanded Acquisition Method Codes and Acquisition Method Suffix Codes, validated code combinations, deleted the breakout screening threshold, included certain provisioning items as part of the breakout program,

clarified breakout definitions, and revised reporting procedures for breakout program savings and costs. It also implemented recommendations in a prior General Accounting Office report and incorporated several provisions of the Competition in Contracting Act of 1984. We considered the updated supplement in making our recommendations.

PART II - FINDINGS AND RECOMMENDATIONS

A. Cost-Effectiveness of Spare Parts Breakout Program

FINDING

Although the Military Departments and the Defense Logistics Agency (DLA) had reported significant savings through the breakout of spare parts, they were unable to accurately determine the cost-effectiveness of their Spare Parts Breakout Programs (the Program). This condition occurred because OSD did not issue guidance on how to consistently determine savings and costs, and the Military Departments and DLA did not have a uniform accounting system for calculating savings and accumulating costs. Reported Program costs were based on a combination of actual expenditures, budgeted amounts, estimates, and obligations. The Military Department and DLA buying activities did not identify and fully screen parts with high-value requirements to achieve the greatest savings. Also, savings of $28.7 million, that the four inventory control points reported to OSD for our sample items, were overstated by $8.2 million because of reporting errors and by another $8.0 million because each inventory control point used different criteria to determine savings.

DISCUSSION OF DETAILS

Background. Defense Acquisition Regulation (DAR), Supplement No. 6, June 1, 1983, establishes a $10,000 annual buy value as a screening threshold for spare parts noncompetitively procured because the actual cost of full screening spare parts is unknown. It encourages the Military Departments and the DLA to screen those parts with the greatest savings potential. DAR, Supplement No. 6, describes how to perform an economic feasibility study for a part before screening efforts are completed and before a part is purchased. It provides that, when screening personnel are performing breakout screening, savings data will be developed by applying a 25-percent savings factor, or one determined under local conditions and purchase experience, to the estimated buy value of the remaining program life. DAR, Supplement No. 6, states that estimated breakout savings and costs will be compared to each other to determine if it is cost-effective to break out a particular part. DAR, Supplement No. 6, does not provide criteria for accounting for the cost of the program or guidance for calculating savings. Both savings and cost information are essential to accurately determine program cost-effectiveness.

Full screening of spare parts involves 65 steps in the decision process, and full screening is divided into data collection, data evaluation, data completion, technical evaluation, economic evaluation, and supply feedback.

Limited screening covers only the essential points of data and technical evaluation and consists of a maximum of 11 steps. It is appropriate to use when full screening cannot be completed in sufficient time to support the immediate buy of a spare part.

The issuance of DAR, Supplement No. 6, and the Secretary of Defense 1983 Spare Parts Initiatives caused an increase in breakout efforts. The Secretary of Defense requested, and Congress approved, about 5,800 additional personnel to handle the increased workload in an effort to improve the acquisition of spare parts. Many of these additional personnel were assigned to support breakout screening. Army and Navy activities also contracted out technical support requirements to aid in the operation of the Program. The OSD Spares Initiatives Office, which the Secretary of Defense established to monitor the spare parts reform programs, requested that the Military Departments and DLA report savings resulting from the spare parts initiatives and program costs because the Program had grown and there was a need-to-know if it was cost-effective. However, the Spares Initiatives Office issued no specific guidance on what savings and costs were reportable or on how to collect such data. Although the Military Departments and DLA did not have specific guidance, they submitted savings and costs to the Spares Initiatives Office. The Spares Initiatives Office summarized the savings and costs and reported the amounts to the Congress. The amounts reported to Congress indicated that the program was cost-effective, i.e., the Program had achieved a net savings. For example, OSD reported that the Program had achieved a net savings of $421.7 million in FY 1986 and had achieved a net savings of $489 million in FY 1987.

Cost-Effectiveness Studies. Because they had no actual savings and cost data available, the Military Departments evaluated the cost-effectiveness of their breakout screening programs through models and surveys that resulted in estimates of the screening cost. Because they lacked guidance on estimating full-screening costs, each Military Department based its study on a different assumption. Each activity estimated a different full-screening cost. For example, in FY 1986, the Army Materiel Command completed a breakout cost study which estimated that the cost of full screening at its six buying commands ranged from $220 to $6,135, and averaged $1,577. The study also estimated that the cost of limited screening ranged from $76 to $163, and averaged $130. (The Navy and Air Force did not analyze limited screening costs.) In FY 1986, the Navy Fleet Material Support Office performed a cost-benefit analysis that estimated that the cost of full screening at the Navy Aviation Supply Office (ASO) was $6,000 and the cost at the Ships Parts Control Center was between $7,000 and $10,500. In FY 1985, the Air Force Air Logistics Centers at Warner Robins, Georgia, and Ogden, Utah, estimated that the cost of full screening was between $2,000 and $2,500. In FY 1987, Modern Technologies Corporation, under

contract with the Air Force Business Management Center, found that the cost of full screening could not be determined by reviewing historical accounting data at the Air Logistics Centers. DLA did not perform a study to determine the cost of full screening. The preceding examples demonstrate the inconsistent treatment of costs for full screening and the lack of historical accounting data.

The studies found that many variables should be considered when establishing definitive criteria for cost-effective full screening. They also indicated that full screening was more cost-effective than limited screening because full screening generally had a higher return on investment. While these studies identified recommended screening levels, they were estimates. Only actual cost and savings data, which could not be determined, would be proof of Program cost-effectiveness.

We believe that the cost-effectiveness studies that the Military Departments performed were useful in identifying variables to be considered in whether to screen particular spare parts. Historical data and uniform criteria are needed to define the variables that will be used to identify parts for full screening.

OSD Guidance. The cost-effectiveness of the Program is measured by determining the difference between Program costs and savings and evaluating the return on investment. Each activity involved in the Program must compute, accumulate, summarize, and report Program costs. DAR, Supplement No. 6, does not require that the Military Departments and DLA report Program costs and savings. It does not provide the criteria for accounting for Program costs or guidance for uniformly calculating savings. DAR, Supplement No. 6, only describes how to perform an economic feasibility study for a part before screening efforts were completed and before the part was purchased.

Program Savings. Each of the Military Departments and DLA used a different method of calculating the program savings that they reported to Congress. The methods ranged from a detailed formula with adjustments for inflation and quantity, to a simple mathematical equation. At the four activities reviewed, we found the following differences in methods used to compute savings.

-- ASO calculated savings for first-time breakout to the actual manufacturer, or the first competitive purchase, based on the Acquisition Method Code (AMC) assigned by screening personnel. The Aviation Systems Command (AVSCOM) and the San Antonio Air Logistics Center (SAALC) calculated savings based on how the contract was actually awarded, and used the AMC to develop procurement strategies only. The Defense Construction Supply Center (DCSC) calculated savings each time a new source was added to the list of actual manufacturers.

-- When a spare part had a current and prior contract, the Military Department's buying activities determined savings by subtracting the adjusted prior unit price from the current unit price (difference between the two is the unit savings), and multiplying the unit savings by the quantity purchased. However, they calculated the adjusted prior unit price differently: AVSCOM used a weighted average prior unit price that was adjusted for inflation and quantity discounts; ASO used the most recent prior unit price, adjusted for inflation, and did not account for quantity discounts; and SAALC used a weighted average prior unit price that was adjusted for inflation, but did not account for quantity discounts. Therefore, the Military Departments did not consistently calculate savings.

-- Each activity used a different inflation index.

-- Each activity had a different procedure for computing the base price when there was no purchase history for the spare part. AVSCOM and SAALC used a savings percentage based on actual prior purchases of all spare parts to estimate savings. ASO estimated savings based on an alternate part if one could be identified, or on a Navy developed estimate if an alternate part could not be identified.

-- DCSC reported savings based on the difference between the original equipment manufacturer's (OEM) bid and the winning bid. If the OEM did not bid, DCSC used the last OEM contract price. If no purchase history existed, DCSC computed savings using the difference between the winning bid and the highest quote.

We also determined that the Military Departments and DLA did not treat contract actions consistently in savings computations. For instance, DCSC was the only activity reviewed to report breakout savings when a procurement request was canceled. We determined that the Military Departments and DLA were inconsistent in their reporting of savings on provisioning spares contracts, repair contracts, price redeterminable contracts, contracts for surplus parts, contracts for foreign military sales requirements, unpriced contractual actions, contracts with first article clauses, and spot buys. Some of the reporting differences are contained in Appendix H.

Program Costs. The four activities reported costs that were based on a combination of actual expenditures, budgeted amounts, estimates, and obligations. Total actual costs should be accumulated and reported, but the accounting system necessary to capture actual costs was not established. The activities were also not consistently accumulating costs because they did not have specific guidelines on what costs to accumulate. For example, SAALC and DCSC reported only labor costs as Program costs, and did not include fringe benefits or other direct

operating expenses. AVSCOM and ASO reported costs for equipment, overtime, travel, supplies and the cost of contractor support, in addition to labor costs. None of the activities reported indirect costs, such as administrative and personnel support, automatic data processing, security, office space, and utilities. The inventory control points should have accumulated and consistently reported all identifiable direct and indirect costs. Details on the costs reported by the four activities are in Appendix I.

Screening Low Dollar Value Items. The Military Departments and DLA performed limited and full screening of spare parts below the $10,000 annual buy screening value to increase competition rates and to reduce the potential for spare parts overpricing. The Military Departments and DLA activities that we reviewed adopted the following screening thresholds.

	Screening Threshold	
	Limited Screening	Full Screening
Activity		
Army Aviation Systems Command	1/	1/
Navy Aviation Supply Office	$ 6,000 2/	$10,000 3/
San Antonio Air Logistics Center	4/	5/
Defense Construction Supply Center	$10,000 2/	$10,000 2/

1/ Did not have an established threshold for full and limited screening
2/ Based on value of individual purchase request
3/ Annual buy value
4/ Performed limited screening on an exception basis
5/ On April 1, 1988, the screening threshold was reduced from $2,000 annual buy value to a zero dollar threshold to insure screening of all items.

Generally, the Military Departments and DLA performed limited screening on spare parts with an immediate buy requirement because there was not enough time to perform full screening. Instead, they should have planned full screen reviews on selected spare parts based on an annual buy value. The Army and DLA subjected their spare parts to limited screening after a purchase request had been submitted. The purpose of the limited screening was to determine if the parts could be acquired competitively or from an actual manufacturer. However, limited screening did not advance the status of the part for breakout purposes. Low-dollar value items were also screened because, in addition to

identifying overpricing, the technical reviews uncovered uneconomical buys, improper technical specifications, and other discrepancies. At one activity visited, the senior breakout official stated that low-dollar value items should be screened because DAR, Supplement No. 6, was not written to comply with the Competition in Contracting Act. The Act provided for seven exceptions to full and open competition, and the cost-effectiveness of spare parts breakout screening was not one of them.

Validity of Reported Program Savings. We examined 363 sample spare part buys for which AVSCOM, ASO, SAALC, and DCSC reported savings totaling $28.7 million. Using each activity's criteria, we determined that AVSCOM and SAALC underreported savings and ASO and DCSC overreported savings on their buys, as follows.

Activity	Sample Buys Reviewed	Savings Reported for Sample Buys	Savings Incorrectly Reported	Valid Savings per Audit	Difference Over (Under)
AVSCOM	106	$ 1,128,676	38	$ 1,500,873	($372,197)
ASO	82	24,117,080	19	14,639,602	9,477,478
SAALC	73	1,970,520	21	3,820,979	(1,850,459)
DCSC	102	1,516,867	47	586,045	930,822
Total	363	$ 28,733,143	125	$ 20,547,499	$8,185,644

The following reporting errors contributed to the $8.2 million overstatement of savings: the actual method of procurement was not recorded or updated; inaccurate computer based codes were used to identify and exclude savings candidates; and contract modifications or terminations, which changed reporting criteria, were not forwarded to the reporting office.

To demonstrate the inconsistency in reporting, we recalculated the savings for all activities using computations similar to those used by the Army. Reportable savings declined by about $8.0 million, as follows.

Activity	Validated Savings Per Audit	Savings Using Standard Criteria	Difference Over (Under)
AVSCOM	$ 1,500,873	$ 944,576	$ 556,297
ASO	14,639,602	5,521,655	9,117,947
SAALC	3,820,979	5,836,629	(2,015,650)
DCSC	586,045	274,151	311,894
Total	$20,547,499	$12,577,011	$7,970,488

Conclusion. The Military Departments and DLA could achieve a higher potential return on investment if they placed greater emphasis on identifying and performing full screening of parts with a high annual buy requirement. Limited screening of parts prior to purchase does not remove many impediments to competition. Limited screening of low-dollar value procurements appears justified for reasons other than cost-effectiveness. More specific guidance and uniform procedures are needed for top DoD managers to assess the overall cost-effectiveness of the Program and to achieve a proper balance between full and limited screening programs.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Assistant Secretary of Defense (Production and Logistics):

1. Establish a working group comprised of representatives from the spare parts buying offices to develop guidance that will be used to consistently determine costs and report savings for full screening and limited screening.

2. Implement a uniform accounting system to calculate and report historical Spare Parts Breakout Program savings and costs, both direct and indirect.

3. Give priority to full screening rather than limited screening of spare parts with a high annual buy requirement.

MANAGEMENT COMMENTS

Finding

The Army concurred with the information and savings calculations concerning the Aviation Systems Command (AVSCOM). The Navy agreed that there was no uniform system for measuring cost avoidances, but did not agree that the Aviation Supply Office (ASO) overstated savings by about $9.5 million. The Navy stated that about $8.6 million of the alleged overstatement was reported in accordance with ASO's existing rules and that the alleged discrepancy should be reduced accordingly. The Navy agreed that some errors occurred as the reporting system was developed and implemented, but did not agree that the errors accounted for the balance of the overstatement. The Air Force stated that the San Antonio Air Logistics Center (SAALC) performed limited screenings on an exception basis and that SAALC implemented a zero dollar screening threshold on April 1, 1988, which was intended to ensure the screening of all items. The Defense Logistics Agency (DLA) stated that although its reported savings were justifiable and on the conservative side, it would examine the policy on cost/savings and ensure that the policy in place is correct. The complete texts of managements' comments are in Appendixes L, M, N and O.

Recommendations

The Military Deputy to the Assistant Secretary of Defense (Production and Logistics) concurred with the recommendations. On Recommendations A.1. and A.2., the Military Deputy stated that a working group would be established to develop cost and savings guidance and recommend a uniform accounting system. On Recommendation A.3., the Military Deputy stated that Service and DLA Breakout Program Managers will be encouraged to give priority to full screening rather than limited screening of spare parts with high annual buy requirements. Action on each recommendation is to be completed by April 1990. The complete text of management comments is in Appendix K.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Finding

At the beginning of the audit, ASO representatives briefed our auditors on the rules and methodology ASO used for computing and reporting breakout savings. Our understanding was that urgent buys, which account for most of the $9.5 million overstatement, were not included in the computation of breakout savings. During our review of the reported breakout savings, we determined that ASO was not consistent in excluding urgent buys. When we identified a savings computation that was not consistent with the rules and methodology, we brought the matter to the attention of the ASO employee responsible for savings calculations. That employee did not challenge our conclusions regarding the computations involving urgent buys. Details on the individual items including the $9.5 million net overstatement were also discussed with ASO representatives during the week of January 23 through 27, 1989. On May 30, 1989, ASO informed us that breakout savings had been properly computed on urgent buys. We did not adjust our computation of the overstatement because ASO's position was not supported by previous events and because the purpose of ASO's position appeared to be to reduce the amount of the overstatement.

Recommendations

We consider the comments from the Assistant Secretary of Defense (Production and Logistics) to be responsive to our recommendations.

B. Breakout Screening and Coding

FINDING

Breakout screening personnel did not correctly code and did not fully screen spare parts. This occurred because personnel responsible for breakout screening and coding were not promptly and properly recoding parts, requesting missing or incomplete data, or challenging limited technical data rights restrictions in accordance with DAR, Supplement No. 6. As a result, buyers did not have current breakout information when purchasing spare parts from contractors, and of 66,691 spare parts that were procured from July 1, 1986, through June 30, 1987, we estimated that:

- 35,585 spare parts had been assigned an incorrect AMC; and

- 9,135 spare parts containing restrictive technical data packages were not systematically reviewed and challenged as appropriate, causing $90.1 million in additional costs to be incurred.

DISCUSSION OF DETAILS

Background. Breakout screening is a data collection and evaluation process that coordinates technical and supply input to determine if a particular spare part can be either purchased directly from the actual manufacturer or purchased competitively. DAR, Supplement No. 6, Paragraph 301.2, states that lists will be annually prepared of those parts with an annual buy value exceeding $10,000 that are projected for purchase during the subsequent 12-month period. The purpose of the lists is to assign priority to screening reviews, with emphasis on parts with both a high annual buy requirement and a high annual buy quantity, and parts for which purchase requests are anticipated. Parts that have not been previously screened and coded are also to be reviewed.

All spare parts are assigned an AMC and an Acquisition Method Suffix Code (AMSC) based on the results of a screening review. The AMC is a numeric code (1 through 5) that identifies whether parts are to be procured noncompetitively from prime contractors (AMC 3 or 5), noncompetitively from actual manufacturers (most often subcontractors) (AMC 3 or 4), or competitively from the open market (AMC 1 or 2). AMC 0 is assigned to parts that have never been screened. DAR, Supplement No. 6, Paragraph 201.1, defines each AMC as follows.

- AMC 1. Suitable for competitive acquisition.

- AMC 2. Suitable for competitive acquisition for the first time.

- AMC 3. Acquire directly from the actual manufacturer, whether or not the prime contractor is the actual manufacturer.

- AMC 4. Acquire, for the first time, directly from the actual manufacturer rather than the prime contractor who is not the actual manufacturer.

- AMC 5. Acquire only from the prime contractor, although the engineering data identify the Federal Supply Code for Manufacturers and part number of a source other than the prime contractor.

The AMSC is an alphabetic code (A through Y) that provides additional information concerning the status of the part in areas such as engineering, manufacturing, and technical data. Several examples of AMSC's from DAR, Supplement No. 6, Paragraph 201.2, are:

- AMSC A. The Government's rights to use data in its possession are questionable.

- AMSC B. Acquisition of this part is restricted to source(s) specified on "Source Control," "Altered Item," or "Selected Item" drawings/documents.

- AMSC C. This part requires engineering source approval by the design control activity in order to maintain the quality of the part.

- AMSC G. The Government has unlimited rights to the technical data, and the technical data package is complete.

- AMSC H. The Government does not have in its possession sufficient, accurate or legible data to purchase this part from other than current sources.

- AMSC P. The Government does not own, and cannot purchase, the technical data rights to procure this part from additional sources.

After a part has been assigned an AMC and an AMSC, the noncompetitive (AMC's 3 through 5) codes are periodically reviewed throughout the life of the part or until the part is suitably coded for competitive acquisition (AMC's 1 and 2). DAR, Supplement No. 6, Paragraph 302 (g), states that for each part screened, a file will be established to document screening efforts and to justify the coding decision.

DAR, Supplement No. 6, Paragraph 105(d), states that DoD personnel responsible for breakout screening will:

- initiate the breakout process as early as possible and continue the process during the life cycle of the part,

- consider technical assessments made by the prime contractor,

- screen the spare parts and assign an AMC and an AMSC, and

- respond promptly to a request for an evaluation of additional sources or a review of assigned codes.

DAR, Supplement No. 6, Paragraph 105(e), states that contracting officers responsible for the acquisition of replenishment parts will:

- consider the AMC and AMSC when developing the list of sources to be solicited and the method of contracting; and

- provide information that is inconsistent with the assigned AMC and AMSC to personnel responsible for code assignment with a request for timely evaluation of the additional information.

Coding Accuracy. At the four activities visited, we randomly sampled 540 spare parts with AMC 0 and AMC's 2 through 5 to determine the accuracy of the AMC's. We did not review parts coded AMC 1 because they represented subsequent competitive buys. We found that 200 parts had incorrect AMC's.

The error rates for the activities and resulting statistical estimates were as follows.

Activity	Parts Reviewed	Parts with Incorrect AMC	Error Rate	Total Number of Parts	Estimated Number of Parts with Incorrect AMC
AVSCOM	147	27	18.4	7,944	1,462
ASO	121	25	20.7	9,213	1,907
SAALC	138	50	36.2	10,822	3,918
DCSC	134	98	73.1	38,712	28,298
Totals	540	200		66,691	35,585

Screening personnel failed to assign proper AMC's during the screening process. DAR, Supplement No. 6, Paragraph 201.1, requires DoD activities to assign AMC's 1 through 5 (see definitions on pages 13 and 14) to describe the results of screening reviews. When making their coding decisions, the activities visited did not gather all of the information

available to them, and they did not evaluate all of the information that they already had in their possession. For example, screening personnel did not determine the correct number of independent sources available and willing to bid (26 parts). They did not identify first-time buys from actual manufacturers or parts that were already competitively purchased (13 parts). They did not identify the requirement to buy the part from the prime contractor, although the prime contractor was not the actual manufacturer (1 part). They claimed successful breakout when the purchase was made from the prime contractor (2 parts). Finally, they did not screen parts because the value of the immediate buy fell below the screening threshold (38 parts). These problems resulted in 80 parts (6 at AVSCOM, 6 at ASO, 30 at SAALC, and 38 at DCSC) being incorrectly coded.

Also, breakout personnel failed to recode AMC's 2 and 4 to AMC's 1 and 3, respectively, after the part's first acquisition, as required by DAR, Supplement No. 6, Paragraph 202(d). This resulted in 61 parts (21 at AVSCOM, 20 at SAALC, and 20 at DCSC) being incorrectly coded. SAALC breakout officials stated that the erroneous codes had no adverse effect on savings because they used an actual method of procurement (AMOP) code to compute breakout savings. We determined that SAALC reported incorrect savings for 11 of these 20 parts. At DCSC, breakout personnel stated that the AMC's were not updated because the computer was not automatically updating the AMC as it should have been.

Breakout personnel did not always consider dealers and distributors in the assignment of AMC's 1 and 2 to spare parts in accordance with DAR Supplement No. 6, Paragraph 201.1 (Note 1), which states that potential sources shall include dealers and distributors for AMC's 1 and 2. At DCSC, 29 parts had an incorrect AMC because breakout personnel only coded those parts that had more than 1 actual manufacturer as suitable for competition (AMC's 1 and 2).

Breakout screening personnel did not use procurement history data during the screening process. This resulted in 17 parts at ASO being incorrectly coded.

Finally, various miscellaneous administrative errors, (i.e., key punch errors omitting the assignment of AMC's 1 through 5) resulted in 13 parts (2 at ASO and 11 at DCSC) being incorrectly coded.

Evaluating Spare Part Status. An effective breakout program requires that all reasonable actions be taken to improve the acquisition status of spare parts. Evaluating technical data is a significant part of both full and limited screening procedures. The screening process should identify constraints, such as deficiencies or restrictions on the use of the technical data package (TDP), that need to be overcome or removed for

competitive procurement. The Military Departments must have an adequate TDP, which consists of engineering drawings and associated information such as item-peculiar test data or packaging data, to acquire the part competitively and to ensure that quality parts are supplied.

We reviewed a random sample of 286 spare parts, from a universe of 37,116 spare parts, that were coded for noncompetitive procurement (AMC's 3 through 5) to determine if breakout screening personnel had screened the spare parts and adequately documented steps to be taken to resolve TDP restrictions. We also determined whether steps were subsequently taken to obtain an adequate TDP for breakout to competition.

For 96 spare parts (33.6 percent) in the sample, we found evidence that screening personnel had not:

- challenged or followed up on limited technical data rights assertions in a timely manner (24 parts);

- followed up on missing data in a timely manner (26 parts);

- pursued the purchase of technical data when the Government did not possess such information (2 parts);

- screened the part as required by the full or limited screening thresholds (12 parts); or

- considered other initiatives, such as reverse engineering, bailment (lending a part to a contractor to see if he can manufacture the part), and publishing intended-buy lists to resolve technical data impediments (32 parts).

A detailed schedule showing the frequency of these problems by location is in Appendix J.

We projected our sample results to the universe of 37,116 spare parts at the 4 locations. From that projection, we estimated that the Military Departments and DLA incurred $90.1 million in additional costs because breakout personnel did not systematically review restrictive TDP's and did not take appropriate actions to obtain technical data on 9,135 parts. We used the 25-percent savings factor in DAR, Supplement No. 6, Paragraph 303.5.(b), to estimate the potential overpricing. The following schedule shows the estimated overpricing and projected number of parts with screening errors, by activity.

Activity	Potential Overpricing (millions)	Parts Universe	Estimated Number of Parts with Screening Deficiencies
AVSCOM	$ 9.0	6,569	2,123
ASO	28.2	9,208	2,627
SAALC	34.1	8,023	2,591
DCSC	18.8	13,316	1,794
Total	$ 90.1	37,116	9,135

Better screening procedures could reduce the amount of missing, incomplete, inadequate, or restricted data in the TDP's needed for competitive spare parts procurement. The buying activities had not given priority to full breakout screening tasks, including challenging limited technical data rights, obtaining missing or incomplete data, deciding to reverse engineer, and deciding to buy needed data. Anticipated buy requirements for the current year must be identified and fully screened on a priority basis, far enough in advance so that action can be taken to eliminate data deficiencies. Limited screening of parts with pending purchase requests identifies, but usually does not remove, technical data impediments to full competition.

Although Congress authorized the Military Departments additional personnel in FY's 1984 through 1986 to increase screening efforts on items projected for future purchase and on seeking and qualifying new supply sources, the following examples show how the four activities had not aggressively screened spare parts or pursued the improvement of the TDP for competitive procurement.

AVSCOM's Technical Review Group performed limited screening for a cable assembly case (National Stock No. 1680-01-173-2155) on November 19, 1986. The evaluation indicated that the part should be procured from the actual manufacturer. The part was coded a controlled-source item (AMC/AMSC 3C). Based on our review of the documents in the screening file, we determined that the Technical Review Group should have coded the spare part as having a TDP that contained limited technical data rights. Our review further indicated that the limited technical data rights legends on the drawings were suspect and that the failure to properly identify and record the results of a technical data review resulted in breakout personnel not challenging the suspect limited technical data rights legends. AVSCOM personnel performed only limited screening that focused on spare parts with a pending purchase request, regardless of value. A sole-source contract was awarded on December 18, 1986, for 23 cable assembly cases, valued at $21,995.

ASO started a full screening review on a door seal (National Stock No. 1560-00-357-1967) on January 18, 1985. The original AMC/AMSC 3P indicated that it was uneconomical to purchase the required technical data for manufacturing. However, the screening files did not contain supporting documentation. On April 18, 1985, ASO determined the technical drawings contained limited technical data legends. On March 27, 1986, a limited screening review changed the AMC/AMSC to 4H (technical data not adequate for competition). On October 3, 1986, ASO awarded sole-source contract N00383-87-C-A800 for 660 door seals valued at $73,656. ASO did not attempt to challenge the prime contractor's technical data claims until August 30, 1988, more than 3 years after screening personnel noted that the data were inadequate. At the time of our review, the proprietary data issue remained unresolved.

VSE Corporation, a contractor assisting ASO with spare parts breakout screening, recommended competitive acquisition of a control stick (National Stock No. 1680-01-085-0348) in August 1985. ASO breakout personnel stated that this part had not been fully screened because the part had a low annual buy value (less than $10,000). ASO purchased the item sole-source in May 1987 for $260,958.

SAALC awarded contract F04606-86-G-0086-SA01 on September 26, 1986, to American Safety Flight Systems Inc., for 52 disconnect assemblies (National Stock No. 1660-00-413-0864LS) for $24,180. Full screening efforts for this spare part started on June 4, 1985, and showed that technical data were not available for a competitive package. SAALC started to purchase the technical data in July 1986, but mistakenly rejected the bidder's quote on the basis that the data still carried limited data rights legends. An SAALC buyer subsequently talked to the contractor and found that the quote was for the required technical data with unlimited rights. SAALC did not follow up on purchasing the data because the contractor failed to notify SAALC in writing of its intent to sell the technical data with unlimited rights.

DCSC performed limited screening on a pitchlock parts kit (National Stock No. 1610-00-887-0214) on January 20, 1987, and found that the available TDP was inadequate for competitive procurement. DCSC took no action either to obtain adequate data or to solicit additional sources for the part. The part was critical to the safe operation of the end item, and required a designated engineering support activity to approve the completed TDP for competitive procurement. On April 20, 1987, DCSC awarded a sole-source contract for 302 parts kits valued at $28,388.

Conclusion. Personnel responsible for breakout screening and coding should promptly and properly recode parts. Additional effort is required to review the parts in the supply system to ensure competitive opportunities are not overlooked. Also, full

screening procedures need to be accomplished when technical data limitations or restrictions are an impediment to competitive procurement.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Acquisition Executives for the Army, Navy, and Air Force and the Director, Defense Logistics Agency, adhere to the Defense Federal Acquisition Regulation Supplement, Supplement No. 6, by requiring screening and coding personnel to update Acquisition Method Codes in a timely manner, assign Acquisition Method Codes to all parts in inventory that are expected to be procured, request missing or incomplete data, and challenge limited technical data rights restrictions.

2. We recommend that the Commander, Defense Construction Supply Center, adhere to the Defense Federal Acquisition Regulation Supplement, Supplement No. 6, by requiring breakout managers to recognize dealers and other nonmanufacturing sources as valid sources of supply when assigning Acquisition Method Codes.

3. We recommend that the Commander, Navy Aviation Supply Office, establish a mechanism for communicating supply-source information, identified on procurement history records, between screening and purchasing activities.

MANAGEMENT COMMENTS

Finding

The Army concurred with the finding and the estimated potential overpricing of approximately $9.0 million for the Aviation Systems Command (AVSCOM). The Navy partially concurred with the finding and stated that the Aviation Supply Office (ASO) personnel screened spare parts for breakout in accordance with the Defense Federal Acquisition Regulation Supplement (DFARS), Supplement No. 6. The Navy stated that DFARS, Supplement No. 6, does not require either a full screen to be accomplished on every item or completion of all 65 steps in the full screen review and that during the period covered by the audit, the breakout screening criteria required only anticipated non-competitive buys with an annual buy value of $10,000 or greater to be screened. The Navy stated that several items reviewed by the auditors were below the screening threshold. However, the Navy acknowledged that administrative errors had been made in updating and adding vendors to the Management Information File. The Navy nonconcurred with our estimate of $28.2 million in additional costs incurred by the ASO because ASO had not completed a validation of the 25 sample items.

The Air Force agreed that discrepancies had occurred in 36.2 percent of the sample items reviewed at the San Antonio Air Logistics Center (SAALC), but stated that the significance of the errors was minor and had no effect on savings. The Air Force also stated that the audit reviewed items that may have been screened as far back as 1981 and, therefore, missed Competition in Contracting Act initiatives implemented since 1984 that requested missing or incomplete data and challenged limited technical data rights restrictions. The Air Force did not comment on the validity of the potential overpricing amount reported for SAALC. The Defense Logistics Agency (DLA) partially concurred with the finding and stated that timeliness was more a factor than mistakes being made in coding items. DLA stated that items added to the Defense Construction Supply Center (DCSC) inventory were coded properly, but acknowledged that changes were being made to the DLA's Standard Automated Materiel Management System to enhance coding capabilities. DLA further stated that the additional pass-through costs were passed on to the Defense Stock Fund customers in the form of higher standard prices and that DCSC customers have already paid the higher prices incurred. DLA stated that savings identified in the report will be translated to the Military Departments' customers in the form of lower standard prices.

Recommendations

The Army concurred with Recommendation B.1. and in its comments stated that the Army Acquisition Executive will publish and distribute additional directions concerning the importance of adhering to the DFARS, Supplement 6, to all appropriate organizations. The Army suggested that Recommendation B.1. be changed to read, ". . . assign Acquisition Method Codes to all parts in the inventory that are expected to be procured, request missing or incomplete data, and challenge technical data restrictions." The Army suggested that the underscored phrase be added to our recommendation because savings accrue only when an item is procured and the assignment of an Acquisition Method Code (AMC) to items that will not be procured would serve no purpose and be labor intensive. The Navy concurred with the intent of Recommendation B.1., but stated that the Navy was in full compliance with DFARS, Supplement No. 6, which does not include provisions for screening and coding personnel to update AMC's for all parts in the inventory. The Navy concurred with Recommendation B.3. and stated that ASO's Management Information File is updated to include the identification of all approved sources of supply and to record the AMC/AMSC assigned as a result of the screening breakout reviews. Also, ASO is cross-matching its competition data base files with its Management Information File to verify that updates to an AMC/AMSC are being accurately recorded. The Air Force concurred with Recommendation B.1. without providing specific actions that had been taken or would be taken to implement the recommendation. On

Recommendation B.2., the Air Force stated that dealers and distributors are valid sources of supply and should be included in the coding of commercial items. DLA partially agreed with Recommendation B.1. and stated that DCSC and the other Defense Supply Centers had been provided guidance to accomplish the recommendation and that implementation of a systems change request would alleviate the problem of prompt recoding. DLA nonconcurred with Recommendation B.2., stating that the recognition of dealers and other nonmanufacturing sources is not true competition but only competition in pricing, and could lead to price fixing and collusion.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Finding

We disagree with the Navy's position that ASO personnel correctly and fully screened spare parts in accordance with DFARS, Supplement No. 6. Our review showed that ASO personnel did not correctly code all spare parts because they either did not identify or incorrectly identified procurement sources. Also, they did not use the procurement history data when coding decisions were made, and did not fully pursue the elimination of impediments to competition, such as missing technical data or challenging limited data rights restrictions. We also determined that ASO did not perform limited or full screening on spare parts that had met the dollar threshold for screening. Based on these shortcomings, we concluded that ASO's screening and coding of spare parts could be improved.

The Navy is correct that our audit sample included spare parts with buy requirements less than the DFARS $10,000 threshold for full screening or ASO's threshold of $6,000 for limited screening. However, these spare parts were not included in the finding unless they had been screened by ASO or should have been screened by ASO.

We computed monetary benefits (additional costs incurred) of $28.2 million on the basis of spare parts that ASO did not fully screen. On January 25, 1989, we discussed with ASO personnel the sample spare parts that would be used in the finding. We request that the Navy reconsider its position that ASO personnel correctly and fully screened parts in accordance with DFARS, Supplement No. 6. We also request that the Navy reconsider its nonconcurrence with our estimated monetary benefits of $28.2 million.

The Air Force and Defense Logistics Agency's comments are considered partially responsive. The comments do not state concurrence or nonconcurrence with the estimated monetary benefits identified in the finding. Therefore, we request that the Air Force and the Defense Logistics Agency provide this information in their replies to the final report.

Recommendations

We considered the Army's and Navy's comments on Recommendation B.1., and revised the recommendation in the final report to include the phrase suggested by the Army. On Recommendation B.1., the Army did not provide the estimated completion date for publishing additional guidance reemphasizing Defense Federal Acquisition Regulation Supplement, Supplement No. 6. We request that the Army provide this information in its reply to the final report.

The Navy's comments to Recommendations B.1. and B.3. are partially responsive. ASO did not always screen spare parts as required by DFARS, Supplement No. 6. The Navy's comments do not address actions to be taken or already taken for Recommendation B.1., and the actual completion dates for Recommendations B.1. and B.3. Therefore, we request that the Navy provide this information in its reply to the final report.

The Air Force concurred with Recommendation B.1. but did not comment on corrective actions planned or taken or the estimated completion date for such corrective actions. We request that the Air Force provide this information in its reply to the final report.

On Recommendation B.2., we disagree with the Defense Logistics Agency's comment that the recognition of dealers and nonmanufacturing sources would result in price fixing and collusion. It is DFARS, Supplement No. 6 policy to recognize dealers, vendors, or nonmanufacturers as sources of supply when performing the screening process to break out a spare part to competition. It is identification and solicitation of multiple sources that creates a competitive procurement environment with competitive pricing among vendors and cost avoidance to the Government. Therefore, we request that the Defense Logistics Agency reconsider its position on this recommendation when replying to the final report.

C. Identification of Supply Sources

FINDING

We estimated that AVSCOM, SAALC, and DCSC did not include the required Source-of-Supply Clause (the Clause) in the contracts for 12,154 (40.4 percent) of 30,050 spare parts and ASO did not use the Clause in any of its contracts. Of the contract actions containing the Clause, we estimated that the contractors failed to provide such data on 11,654 (65.1 percent) of 17,890 spare parts purchased on these contract actions. These conditions existed because contracting officers failed to comply with Defense Federal Acquisition Regulation Supplement, Section 17.7204, which provided guidance on when to obtain source-of-supply data, and failed to enforce contractor compliance with the Clause. The absence of these source-of-supply data deprived breakout managers of opportunities to identify actual manufacturers and to achieve additional savings. From a separate sample of 34,717 sole-source spare part procurements, we estimated that AVSCOM, ASO, SAALC, and DCSC incurred $17.4 million in pass-through costs by not buying 2,375 parts from the actual manufacturers.

DISCUSSION OF DETAILS

Background. When prime contractors or subcontractors subcontract for the fabrication of spare parts, DoD contracting activities do not know the identity of the contractor who actually makes the part. They only know the identity of the prime contractor or the design sources for the engineering drawings. Since the contracting activities do not know the identity of the actual manufacturer, they must buy the spare part from the prime contractor or subcontractor. Such purchases allow prime contractors and subcontractors who are not actual manufacturers to add pass-through costs, such as general and administrative expenses, material burden, and profit to the actual manufacturer's costs without improving the part. Sole-source dollars spent in the subcontract arena, multiple subcontractor markups, and unquestioned vendor price escalation combine to create unreasonable spare parts prices.

In 1984, Congress passed the Defense Procurement Reform Act and amended United States Code, title 10, section 2384(a), to require that DoD obtain information about the actual manufacturer from contractors. This requirement became effective in a January 1986 amendment to two sections of the Defense Federal Acquisition Regulation Supplement. Section 17.7204 of the Regulation was amended to provide guidance on when to use the Clause. The Regulation states that the use of the Source-of-Supply Clause:

> ... enables contracting officers to obtain sufficient information to allow solicitation of all actual manufacturer(s) of end items, parts, subassemblies and/or components, thereby allowing for enhancing competition and avoiding payment of additional cost where no significant value is added by dealers, distributors and manufacturers other than the actual manufacturer.

Section 52.217-7270 of the Regulation prescribes the standard Identification of the Source-of-Supply Clause for supply contracts. These sections were subsequently modified to eliminate commercial items sold in substantial quantities to the general public and priced at established catalog or market prices or awarded through full and open competition.

Use of the Source-of-Supply Clause. We reviewed a random sample of 274 sole-source spare parts contracts awarded from July 1, 1986, through June 30, 1987, by AVSCOM, SAALC, and DCSC to determine whether the activities inserted the Clause in the contracts, whether contractors provided manufacturing source data when contracts contained the Clause, and whether the information obtained was provided to personnel responsible for screening and coding parts. ASO did not use the Clause and the other 3 activities did not use the Clause in 63 contracts, as follows.

Activity	Sample Contracts Reviewed	Sample Contracts Without the Clause	Percent Without the Clause
AVSCOM	144	19	13.2
SAALC	75	9	12.0
DCSC	55	35	63.6
Total	274	63	

We estimated that AVSCOM, SAALC, and DCSC did not include the Clause in the contracts for 12,154 (40.4 percent) of 30,050 spare parts (see Appendix F). ASO did not use the Clause during the audit period because the ASO Counsel had not notified procurement personnel about the requirement to use the Clause.1/

Contractors failed to provide the source-of-supply information for 175 of the 211 sample spare parts that contained the Clause in their contracts, as shown in the following schedule.

1/ As a result of our audit, the ASO Counsel issued a January 4, 1988, memorandum to contracting officers requesting that they include the Clause in all future solicitations and contracts.

Activity	Sample Spare Parts Reviewed	Contractor Noncompliance	Percent Noncompliance
AVSCOM	125	121	96.8
SAALC	66	50	75.8
DCSC	20	4	20.0
Total	211	175	

Of the 36 (211 minus 175) spare parts where contractors provided source information, AVSCOM, SAALC, and DCSC contracting or source development personnel forwarded the information from 35 contracts to personnel performing breakout screening. We found that the information in the contract from the remaining spare part, which was at DCSC, was retained in the contract files.

We estimated that contractors failed to provide source-of-supply data on 11,654 (65.1 percent) of 17,890 contract actions containing the Clause (see Appendix G).

Source-of-Supply Information. The activities did not put the Clause in the contract because they were not aware of the requirement. Also, they did not use the Clause in Small Purchase Contracts (contract value less than $25,000). The activities did not receive the source-of-supply information because contracting officers did not enforce the requirement to supply the information to the activities. The contracting officers did not enforce the requirement because management did not emphasize the importance of the information. Also, the contracting officers did not ask the contractor why the information was not provided because it was a time-consuming effort.

Identification of Actual Manufacturers. We also reviewed a random sample of 278 spare parts from a universe of 34,717 spare parts with a noncompetitive acquisition method code (AMC's 3 through 5). These parts were procured by the four activities from July 1, 1986, through June 30, 1987. We reviewed the parts to determine whether they were purchased from the actual manufacturer and to determine whether they were overpriced. With the assistance of the Defense Contract Audit Agency and the Defense Contract Administration Services, we determined that 24 (8.6 percent) of these parts were purchased from other than the actual manufacturer and that there were no apparent impediments to breakout to the actual manufacturer. We estimated that AVSCOM, ASO, SAALC, and DCSC incurred $17.4 million in pass-through costs by not purchasing 2,375 spare parts from actual manufacturers (see Appendix E). The following schedule shows the number of parts with noncompetitive procurements reviewed and the parts purchased from nonmanufacturers, by activity.

Activity	Parts Reviewed	Parts Purchased from Nonmanufacturer
AVSCOM	96	15
ASO	70	3
SAALC	78	4
DCSC	34	2
Totals	278	24

Examples of parts that were purchased from other than the actual manufacturer follow.

- AVSCOM awarded a contract for 1,152 rotary rudder blades (National Stock No. 1615-01-137-8136) at a unit price of $1,134.48. The prime contractor purchased the blades complete from its supplier at a unit price of $646.50, a $487.98 difference per unit. A prior Defense Contract Audit Agency preaward audit report recommended breaking out this part to the actual manufacturer. Since the prime contractor added no value (did not improve) to these parts, AVSCOM incurred pass-through costs of $562,153 (1,152 x $487.98) on this purchase alone.

- ASO awarded a contract for 307 spacers (National Stock No. 1620-00-074-1564) at a unit price of $11.67. The screening file, updated in 1985, showed the prime contractor as the actual manufacturer because the prime contractor added value (improved) to the part. The screening file also showed that the technical data rights were not available for purchase. We found that the prime contractor purchased the part complete from a manufacturer for $9.50 per unit and added pass-through costs of $2.17 to the purchased part unit cost for technical support, selling expense, general and administrative expenses, packaging, and profit. We concluded that the part could have been purchased from the actual manufacturer at a potential $666 (307 x $2.17) savings.

- On June 5, 1987, SAALC purchased 344 retainers (National Stock No. 5330-00-390-1853) for $5.35 each. The prime contractor purchased the complete parts from a manufacturer for $3.22 each. The difference of $2.13 consisted of overhead costs, the cost of money, and profit. SAALC officials stated the noncompetitive purchase from the prime contractor was justified because it added value through quality assurance and packaging. We concluded that the part could have been purchased from the actual manufacturer at a potential $733 (344 x $2.13) savings on the specific purchase. The screening file contained a conclusion that sufficient technical data were not available for a purchase from a manufacturer other than the prime contractor.

Conclusion. Contracting officers have not effectively used the Clause. Contracting officers issued contracts without the Clause, and did not always enforce the Clause in contracts that contained the Clause. Contracting officers failed to provide source-of-supply data obtained from contractors to personnel performing breakout screening. Communication was lacking among officers, prime contractors, and contract administration offices in identifying actual manufacturers.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Assistant Secretary of Defense (Production and Logistics) issue guidance to the Military Departments and the Defense Logistics Agency that makes source-of-supply data a contract line item subject to the same conditions as other deliverables.

2. We recommend that the Commander, Army Aviation Systems Command; the Commander, Navy Aviation Supply Office; the Commander, San Antonio Air Logistics Center; and the Commander, Defense Construction Supply Center direct contracting personnel to obtain source-of-supply information through prime contractors, contract administration offices, and the Defense Contract Audit Agency when the information has not been previously obtained.

MANAGEMENT COMMENTS

Finding

The Military Deputy to the Assistant Secretary of Defense (Production and Logistics), the Army, the Navy, and the Air Force concurred with the finding. The Army concurred with the potential monetary benefits identified for the Aviation Sytems Command (AVSCOM). The Navy and Air Force did not respond to the potential monetary benefits identified for their buying activities.

The Defense Logistics Agency (DLA) partially concurred with the finding and stated that the Defense Construction Supply Center (DCSC) had awarded 35 contracts without the source identification clause because DCSC had not fully implemented use of the clause at the time the sample contracts were awarded. DLA stated that a recent DCSC random review of 50 contracts showed that the required information was obtained in 49 instances. DLA did not agree that any monetary benefits occurred as a result of our estimated pass-through costs, and stated that the monetary benefits could not be quantified. However, DLA acknowledged that

the estimated total pass-through costs for items at DCSC were approximately $900,000 of the $17.4 million total estimated for the four activities audited.

Recommendations

The Military Deputy to the Assistant Secretary of Defense (Production and Logistics) concurred with Recommendation C.1. and stated that guidance would be issued to the Military Departments and the Defense Logistics Agency emphasizing the aggressive use of the source-of-supply data as a contract line item, where appropriate. The Military Deputy stated that line item funding, engineering judgment, individual line item characteristics, and other factors will effect the ultimate execution of this recommendation. DLA also commented on this recommendation and stated that making source-of-supply data a contract line item would add an administrative burden to the contracting process without any potential benefit.

The Army, Navy, and Air Force concurred with Recommendation C.2. and stated that guidance was or would be issued to subordinate activities emphasizing the requirement to obtain source-of-supply data in all contracts for spare parts. DLA nonconcurred with Recommendation C.2. and stated that a recent random sample of 50 contracts showed that 49 contracts contained the required source data. Based on this sample survey, DLA stated that the recommendation should not be applicable to DCSC.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Finding

Although the Navy and Air Force agreed with the information in the finding, their comments did not address the monetary benefits for the activities reviewed. Therefore, we request that the Navy and Air Force provide this information in their reply to the final report.

DLA's recent review of a random sample of 50 contracts to determine whether source-of-supply data were requested and received from contractors does not invalidate the results of our audit. Our audit showed that DCSC had not fully implemented the use of the clause for small purchases. However, we agree that the results of DLA's review indicated that the implementation has improved since the contracts in our sample were awarded.

Regarding DLA's comment that the monetary benefits could not be quantified, we included in Appendix E details of our sampling methodology and the projection of potential pass-through

costs. DLA is correct in its comment that the potential pass-through costs that our audit identified for DCSC amounted to less than $900,000 of the total estimated amount of $17.4 million for the four activities audited. We request that DLA reconsider its position on the amount of potential monetary benefits in its reply to the final report.

Recommendations

We consider the concurrence and comments from the Military Deputy to the Assistant Secretary of the Defense (Production and Logistics) on Recommendation C.1. to be responsive.

We consider the Army, Navy, and Air Force's comments on Recommendation C.2. to be partially responsive because the actual or estimated completion dates for the corrective action were not identified. Accordingly, we request that the Army, Navy, and Air Force provide this additional information in their replies to the final report.

We consider DLA's comments on Recommendation C.2. to be nonresponsive. The intent of the recommendation was to require contracting personnel to obtain source-of-supply data if it were not previously obtained. Although DLA's review showed more compliance from the contractors with the source-of-supply clause, the recommendation is still applicable to DCSC. Also, there are indications that DCSC may have taken steps since our audit to implement our recommendation. Therefore, we request that DLA reconsider its position on Recommendation C.2 in its reply to the final report.

SYNOPSES OF PRIOR AUDIT REPORTS

Army Audit Agency Report No. HQ 85-176, "Methodology Used to Estimate FY 84 Cost Avoidance Attributable to Spare Parts Breakout," June 24, 1985.

The objective of this audit was to determine whether the computation methodology used by the Army in estimating the FY 1984 cost avoidance attributable to breakout produced an accurate estimate. The audit showed that the computation methodology was conservative and did not produce an accurate estimate of cost avoidance -- the methodology used by the Army Materiel Command probably understated the overall estimate. The estimate included some inappropriate spare parts acquisitions and inappropriately excluded offset costs, and an error existed in the arithmetical logic used to compute the cost avoidance. The report recommended that the Commander, U.S. Army Materiel Command, correct the methodology used to compute the cost avoidance. The Army Materiel Command agreed and stated that recommendations would be implemented.

General Accounting Office Report No. GAO/NSIAD-86-52 (OSD Case No. 6472), "DoD Initiatives to Improve the Acquisition of Spare Parts," March 11, 1986.

The objectives of this review were to give an overview of the problems surrounding the procurement of replenishment spare parts and to give an update on the status of some of DoD's corrective actions. The General Accounting Office (GAO) stated that DoD personnel did not obtain adequate justification for the significant price increases on 44.5 percent of contracts with price increases of 25 percent or more. Instead, in many cases, prices were simply accepted without challenge. This acceptance was, to some extent, caused by the emphasis on productivity -- number of awards made -- rather than the quality of prices obtained. Further, procurement personnel were encouraged to limit the amount of analyses performed on low dollar procurements. The GAO concluded that these factors adversely affected the overall quality of pricing actions. GAO noted that it would take time to implement the spare parts initiatives and make the necessary adjustments, but that DoD was making progress. Further, the GAO noted that unless systemic weaknesses are disclosed, the initiatives should be given a chance to work. The DoD responded to GAO's report by stating that the report corroborated what the DoD had found through other independent reviews; that is, DoD's spare parts management initiatives were working at field activities and producing distinct, measurable results. The DoD also agreed that it would take time to fully implement the initiatives, but since comprehensive programs were in place and thousands of DoD employees were demonstrating enthusiastic support, the DoD expected to see the positive trend continue.

Air Force Audit Agency Report No. 5046411, "Pricing Replenishment Spare Parts," March 19, 1986.

This report summarized the U.S. Air Force Audit Agency's (AFAA) evaluation of the reasonableness of prices that the Air Force paid for replenishment spare parts. Audit work was performed at all five Air Logistics Centers. The report stated that based on a random sample review, 991 (26 percent) of the 3,816 replenishment spare parts purchased from 34 contractors during the period of review (October 1, 1984, through March 31, 1985) were overpriced by about $2,617,500. In addition, for engine spare parts, about 657 (23 percent) of the total parts purchased during the period were overpriced by $1,822,000. The overpricing occurred primarily because parts were purchased from a prime contractor rather than the actual manufacturer or because Air Force buyers, in isolated instances, did not obtain information which, in retrospect, was needed to obtain the best available price. The report recommended improved screening procedures to identify actual manufacturers and to allow for increased competition. Management agreed to continue to implement the spare parts initiatives.

Office of the Inspector General, DoD, Audit Report No. 86-085, "Report on the Audit of Negotiated Single-Source Procurements Using Unpriced Contractual Actions," April 1, 1986.

This report stated that out of 197 unpriced actions, valued at $1.9 billion, issued between July 1, 1983, and September 30, 1984, at 9 DoD major buying activities, contracting officers did not adequately document the basis, for making a sole-source award on 52 unpriced actions (26 percent), valued at about $421 million. As a result, competition may have been feasible and practicable on 26 percent of the sole-source unpriced actions reviewed. Documentation reviewed in the contract file revealed that procurement personnel did not challenge statements justifying sole-source procurement, although poor acquisition planning and a lack of breakout analysis were apparent. In addition, the report stated that 3 letter contracts, valued at $317 million, and 40 unpriced orders, valued at $67.9 million, were found in which the DoD buying centers had not fully implemented the DoD breakout policies. Lack of technical data, lack of personnel, and workload constraints, as well as the failure of buying center personnel to actively pursue identified breakout opportunities were the primary causes for inadequate implementation of DoD policies. The report recommended that the Secretaries of the Military Departments utilize the increased staffing provided to improve the acquisition process to: expand market research activities and perform advance procurement planning directed towards the identification of competitive sources, and fully implement breakout initiatives, especially for current and planned follow-on provisioning and replenishment of

component and spare parts being procured sole-source from prime contractors when the items are manufactured by a subcontractor. The Assistant Secretary of Defense (Acquisition and Logistics), and the Army and the Navy generally concurred with the findings and recommendations. The Air Force concurred with the recommendations but only partially agreed with the conclusions regarding breakout activities. Management did not cite specific corrective actions.

General Accounting Office Report No. GAO/NSIAD-87-16BR (OSD Case No. 7158), "Limited Data on DoD's Parts Breakout Program," October 10, 1986.

This report addressed various problems with the Defense Acquisition Regulation (DAR), Supplement No. 6 (Breakout Regulation). The report stated that the Breakout Regulation required that AMC's 3 and 4 be used when a part was acquired directly from the actual manufacturer. However, the Breakout Regulation defined the actual manufacturer as the design control activity. The design control activity may or may not add any value to a part, especially when the part is physically produced by a subcontractor. In addition, the Breakout Regulation permitted only one AMC and one AMSC to be assigned to a spare part. GAO also stated that the Breakout Regulation did not contain adequate instructions on how to prepare breakout reports and how to compute reportable savings and costs. As a result, each Military Department and the Defense Logistics Agency (DLA) used its own method, which caused reported results to be inconsistent. GAO stated that DoD should revise the coding system in the DAR, Supplement No. 6, to clearly differentiate between parts purchased from a physical producer and parts purchased from a design control activity that did not physically produce the part. GAO stated that DoD should include not only the number and value of AMC coded parts purchased in a fiscal year in the Replenishment Parts Acquisition Report, but also the number of parts screened and the number of parts purchased after having been screened. GAO also stated that DoD should consider issuing instructions on computing reported savings and costs to ensure consistency in the data reported by the Military Departments and DLA. Officials at the Office of the Secretary of Defense, the Army, the Navy, the Air Force, and the DLA agreed with the answers to the questions addressed in this report.

Office of the Inspector General, DoD, Audit Report No. 87-086, "Summary Report on the Followup Defense-Wide Audit on Procurement of Spare Parts," February 17, 1987.

This is a summary report on the followup Defense-wide audit of procurement of spare parts. The objective of the audit was to evaluate the implementation and the success of Secretary of Defense initiatives to improve spare parts acquisition. During the audit, the Service audit agencies and the Assistant

Inspector General for Auditing issued 7 reports that contained a total of 24 recommendations. Of those recommendations, 15 involved problems with implementing existing policies and procedures and required local corrective actions. The other nine involved problems that required development of more definitive policies and procedures to augment existing guidance. The review showed that 15 percent (99 of 655 sample parts) or $3.1 million of the sampled spare parts were potentially unreasonably priced because the parts were purchased noncompetitively when competition was available. No specific dollar estimate of the amount of unreasonable pricing could be made on these items. The report recommended that the Under Secretary of Defense for Acquisition establish a policy to require procuring activities to record the basis for price reasonableness determinations in their spare parts procurement histories. The Assistant Secretary of Defense (Acquisition and Logistics) agreed with the recommendation and stated that a policy would be established by June 30, 1987.

Office of the Inspector General, DoD, Audit Report No. 87-110, "Report on the Audit of the Acquisition of Landing Craft Air Cushion (LCAC)," April 3, 1987.

The report stated that the Navy incurred excessive costs for the Landing Craft Air Cushion (LCAC) spare parts purchased in uneconomical quantities on a stand-alone basis and for common spare parts purchased from the prime contractor. This condition occurred because the LCAC program management provided insufficient oversight over spare parts purchases. As a result, the Navy had incurred at least $1.5 million in excessive costs, and excess costs would continue to be incurred for spare parts if a breakout plan was not devised and executed. The report recommended that the Commander, Naval Sea Systems Command, study the feasibility of breaking out spare parts associated with the LCAC, integrate the procurement of LCAC spare parts with production procurements, break out the procurement of common-type spare parts and obtain them from the Federal Supply System or part manufacturer, as applicable and most economical. The Assistant Secretary of the Navy (Shipbuilding and Logistics) concurred with the recommendations and agreed to obtain spare parts at the least cost to the Government.

General Accounting Office Report No. GAO/NSIAD-87-149 (OSD Case No. 6851D), "Navy Implementation of the Spare Parts Initiatives," June 1, 1987.

This report reflected the results of GAO's spare parts price analyses at the Navy Ships Parts Control Center (SPCC) and the Navy Aviation Supply Office (ASO). The analyses assessed DoD's progress in implementing its spare parts initiatives announced in July and August 1983 to improve the procurement of spare parts.

GAO compared the prices on 34,440 procurements, totaling $509.6 million, to determine the changes that occurred at SPCC during the 12-month period ending March 31, 1985. GAO's review showed that 10.7 percent of the procurements experienced price increases of 25 percent or more while 59.6 percent had either no price change or a price decrease. At ASO, GAO compared prices on 11,840 spare parts procurements totaling $419.3 million for the same period. GAO determined that over 7 percent of the procurements experienced price increases of 25 percent or more while 58 percent had either no price change or a price decrease. GAO could not quantify how much the initiatives, as opposed to other factors (such as lower inflation and improvement in the economy, attention from top DoD officials, and contractors efforts to minimize price increases and avoid adverse media publicity) helped achieve these results. However, GAO did find evidence that the spare parts initiatives are being implemented and will likely have an effect. The DoD agreed with the conclusions reached in this report.

General Accounting Office Report No. GAO/NSIAD-87-148 (OSD Case No. 6851F), "Army Implementation of Spare Parts Initiatives," June 8, 1987.

GAO reviewed a statistical sample of 174 procurements to evaluate the adequacy of price analyses performed by procurement officials on individual procurements at AVSCOM. Of the 174 contracts that GAO sampled, inadequate price analyses had been performed on 35, representing about 20 percent of the contracts. The GAO also found that of the 49 sampled contracts with price growth of 25 percent or more, 12 contracts or 24.5 percent, did not have an adequate price analysis performed. While noting that this represented an improvement in analyses performed for this category, the GAO concluded that price growth of this magnitude should prompt close scrutiny. The GAO further found that price analyses were inadequate on 7 of 32 (21.9 percent) procurements where prices increased up to 25 percent, and on 10 of 35 (28.6 percent) first-time buys. The GAO observed that an adequate price analysis on first-time procurements was particularly important because the acceptability of future prices often depends on how they compare with first-time prices. According to the GAO report, the 2 most prevalent reasons for the inadequate price analyses, which accounted for 24 of the 35 procurements, were the buyer either did not solicit the suppliers who previously sold the same item to the Government or did not perform adequate analyses when only 1 bid or quote was received. The GAO concluded that AVSCOM needed to improve the price analyses being performed. The GAO further concluded that if such analyses were not performed, the AVSCOM could be vulnerable to unreasonable prices. Management concurred with

GAO's conclusions and stated that more emphasis would be placed on reviewing price increases in excess of 25 percent per annum at the AVSCOM.

Office of the Inspector General, DoD, Audit Report No. 87-176, "Audit of the Acquisition Procedures and Practices Involving the AH-64 Attack Helicopter (APACHE)," June 19, 1987.

The report stated that the APACHE provisioning data were insufficient to promote competitive procurement of spare parts. As a result, provisioning of parts for the APACHE could result in the unnecessary expenditure of $79 million to $112 million over the program life. The report recommended that the APACHE Program Manager establish the Military Parts Advisory Group and the Parts Control Board to monitor the enforcement of contract requirements for provisioning data and parts breakout to include the completion of screening for the identification of the actual manufacturer of single source parts not identified during the provisioning process as well as acquisition method coding of all parts. The completion of this in-depth breakout screening should be coordinated with the prime contractor, U.S. Army Aviation Command's Standardization Branch, and DoD supply activities. The Under Secretary of Defense for Acquisition concurred with all recommendations in the report. The Office of the Assistant Secretary of the Army (Acquisition) partially concurred with all recommendations and stated that the APACHE Program Manager will take appropriate actions on agreed upon recommendations.

Office of the Inspector General, DoD, Audit Report No. 88-114, "Honeywell Catalog Pricing," March 30, 1988.

The report stated that the Army and Navy paid exorbitant prices for spare parts used to support the Army's Decentralized Automated Service Support System and the Navy's Shipboard Non-Tactical ADP Program. Approximately $5.6 million (Army $5.3 million, Navy $.3 million) could have been saved by direct purchase of selected spare parts from principal Honeywell suppliers or other manufacturers of comparable spare parts. The report recommended that the Army and Navy purchase spare parts directly from Honeywell suppliers, original manufacturers, or from manufacturers of comparable spare parts. The Army nonconcurred with the breakout recommendation. The Navy concurred with the recommendation and will take action to purchase selected spare parts from Honeywell suppliers, original manufacturers, or from manufacturers of comparable spare parts.

STATISTICAL SAMPLING PLAN AND METHODOLOGY

We used statistical sampling to test internal controls and to estimate monetary benefits used in this report. All of our statistical sampling was done at the 90-percent confidence level. Specifically, we tested compliance with the Defense Acquisition Regulation, Supplement No. 6, and evaluated the reliability of Acquisition Method Codes (AMC) used to report on the effectiveness of the Spare Parts Breakout Program. We also estimated potential overpricing of spare parts because of incomplete technical data packages, and pass-through costs because the parts were purchased from the prime contractor rather than the actual manufacturer.

For our compliance testing, we used separate attribute samples at each audit activity. We tested the accuracy of AMC's for each activity. We also tested compliance with the requirement to identify sources of supply at each activity. We did not sample for compliance with sources of supply at the Navy Aviation Supply Office (ASO) because the activity did not implement that requirement until after our audit period.

We used a stratified variable sampling technique to estimate potential overpricing and used a weighted-cluster sampling technique to estimate pass-through costs. Our estimates of potential overpricing were made separately at each activity, and we have included a separate projection for each activity. Our pass-through costs estimate combined the four activities into clusters. This estimate is not separately projectable to each activity.

We used spare parts procured within the audit period July 1, 1986, through June 30, 1987, as the audit universe. However, we adjusted the universe to exclude foreign military sales, munition items, and other items that would not lend themselves to breakout.

First, we obtained data tapes from each activity. These tapes contained information on the breakout status of all parts that were purchased within our audit period (July 1, 1986, through June 30, 1987). Then, we selected four locations, one for each Military Department and DLA, for our audit. The audit locations were the Army Aviation Systems Command, St. Louis, Missouri; the Navy Aviation Supply Office, Philadelphia, Pennsylvania; the San Antonio Air Logistics Center, San Antonio, Texas; and the Defense Construction Supply Center, Columbus, Ohio.

Before selecting our samples, we eliminated spare parts coded AMC 1 because they were fully competitive. After making these adjustments, a total of 66,691 parts remained to be sampled that were coded AMC 0 through 5 for the 4 audit activities.

The results of our statistical sampling plans are included in Appendixes C through G.

STATISTICAL SUMMARY OF ACQUISITION METHOD CODE ERROR RATES BY ACTIVITY

1. Sampling Information	Army/AVSCOM	Navy/ASO	Air Force/SAALC	DLA/DCSC	TOTALS
Total Number of NIIN's 1/ in Universe = N	7,944	9,213	10,822	38,712	66,691
Total Number of NIIN's in Sample = n	147	121	138	134	540
Number of NIIN's in Sample with Errors = ne	27	25	50	98	200
Confidence Factor at 90% (1.645) = Z					
Rate of Acquisition Method Code Error = P					

2. Formulas

Rate of Acquisition Method Code Error (P) = $\frac{ne}{n}$

Sample Error (SEp) = $\pm Z \sqrt{\frac{P(1-P)}{n} \cdot \frac{N-n}{N-1}}$

Sample Error pooled (SEp pooled) = $\pm Z \sqrt{\frac{pq1}{n1} + \frac{pq2}{n2} + \frac{pq3}{n3} + \frac{pq4}{n4}}$

3. Estimate of Acquisition Method Code Error Rate (P± SEp)	18.4% ± 5.2%	20.7% ± 6.0%	36.2% ± 6.7%	73.1% ± 6.3%	53.3% ± 12.1%
4. Number of Items with Errors (Np)	1,462	1,907	3,918	28,298	35,585
5. Confidence Interval	13.2% to 23.6%	14.6% to 26.7%	29.5% to 42.9%	66.8% to 79.4%	41.2% to 65.4%

1/ National Item Identification Number

STATISTICAL SUMMARY OF POTENTIALLY OVERPRICED SPARE PARTS FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987

	Estimate of Potential Overpricing
Army - AVSCOM	$ 9,046,104
Navy - ASO	28,198,579
Air Force - SAALC	34,053,944
DLA - DCSC	18,825,894
Total	$90,124,521

STATISTICAL SUMMARY
OF POTENTIALLY OVERPRICED SPARE PARTS
FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987

1. Sampling Information

		AVSCOM	ASO	SAALC	DCSC
Total Parts in Universe (N)		6,569	9,208	8,023	13,316
By Strata	$ 1,000.01 - $ 10,000.00	N_A (3,813)	(5,255)	(4,992)	(10,340)
	$10,000.01 - $100,000.00	N_B (2,285)	(3,322)	(2,529)	(2,726)
	$100,000.01 and Greater	N_C (471)	(631)	(502)	(250)
Parts in Sample by Strata		n_A 25	26	26	11
		n_B 38	30	26	15
		n_C 33	19	26	11
Mean of the Strata		$\bar{x}$ strat			
Standard Deviation of the Mean of the Strata		$\sigma_{\bar{x}}$ strat			
Sampling Error of the Mean of the Strata		$SE_{\bar{x}}$ strat			
Confidence Level (Z= 1.645)		90 Percent			

2. Formulas

$$\bar{x}\ \text{strat} = \sum \left(\frac{Ni}{N}\right) \cdot \bar{x}i$$

$$\sigma_{\bar{x}}\ \text{strat} = \sqrt{\sum \left(\frac{Ni}{N}\right)^2 \cdot \frac{\sigma i}{ni}^2 \cdot \frac{(Ni-ni)}{(Ni-1)}}$$

$$SE_{\bar{x}}\ \text{strat} = \pm Z \cdot \sigma_{\bar{x}}\ \text{strat}$$

$$SE\ \text{Total strat} = N \cdot SE_{\bar{x}}\ \text{strat}$$

$$\text{Estimate} = N \cdot \bar{x}\ \text{strat}$$

STATISTICAL SUMMARY OF POTENTIALLY OVERPRICED
SPARE PARTS - U.S. ARMY AVIATION SYSTEMS COMMAND
FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987

3. COMPUTATIONS

Strata	Ni	Ni/N	$\bar{x}i$	(Ni/N)$\bar{x}i$
A	3,813	.5805	$ 434.97	$ 252.50
B	2,285	.3478	$1,222.08	425.04
C	471	.0717	$9,756.68	699.55
N	6,569	1.000		
			$\bar{x}$ Strat=	$1,377.09

Strata	Ni/N	(Ni/N)^2	si	si^2	(Ni/N)^{2}si^2	(Ni/N)^{2}si^2/ni	(Ni/N)^2(si^2/ni)(Ni-ni/Ni-1)
A	.5805	.3370	631.58	398,893	134,427	5,377	5,343
B	.3478	.1210	2,565.98	6,584,253	796,694	20,966	20,626
C	.0717	.0051	29,139.27	8.49 . 10^8	4,330,395	131,224	122,290
						$\sigma_{\bar{x}}^2$ Strat =	148,259
						$\sigma_{\bar{x}}$ Strat =	$ 385.04

SE Total Strat = ± 1.645 . $385.04 . 6,569 = ± $ 4,160,739

Estimate of Potential Overpricing = $1,377.09 . 6,569 = $ 9,046,104

Confidence Interval = $4,885,365 to $13,206,843

STATISTICAL SUMMARY OF POTENTIALLY OVERPRICED
SPARE PARTS - U.S. NAVY AVIATION SUPPLY OFFICE
FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987

3. COMPUTATIONS (continued)

Strata	Ni	Ni/N	$\bar{x}i$	$(Ni/N)\bar{x}i$
A	5,255	.5707	$ 197.53	$ 112.73
B	3,322	.3608	$ 3,502.53	1,263.71
C	631	.0685	$24,612.63	1,685.96
N	9,208	1.000		
			$\bar{X}$ Strat=	$3,062.40

Strata	Ni/N	$(Ni/N)^2$	si	si^2	$(Ni/N)^2 si^2$	$(Ni/N)^2 si^2/ni$	$(Ni/N)^2 (si^2/ni)(Ni-ni/Ni-1)$
A	.5707	.3256	482.36	232,671	75,758	2,914	2,900
B	.3508	.1301	5,770.81	33,302,248	4,332,622	144,420	143,158
C	.0685	.0047	25,017.50	$6.25 \cdot 10^8$	2,941,614	154,822	150,398
						$\sigma_{\bar{x}}^2$ Strat =	296,456
						$\sigma_{\bar{x}}$ Strat =	$ 544.47

SE Total Strat = ± 1.645 . $544.47 . 9,208 = ± $ 8,247,145

Estimate of Potential Overpricing = $3,062.40 . 9,208 = $28,198,579

Confidence Interval = $19,951,434 to $36,445,724

STATISTICAL SUMMARY OF POTENTIALLY OVERPRICED
SPARE PARTS - U.S. AIR FORCE SAN ANTONIO AIR LOGISTICS CENTER
FOR THE PERIOD JULY 1 1986, THROUGH JUNE 30, 1987

3. COMPUTATIONS (continued)

Strata	Ni	Ni/N	$\bar{x}i$	(Ni/N)$\bar{x}i$
A	4,992	.6222	$ 202.18	$ 125.80
B	2,529	.3152	$ 4,206.28	1,325.82
C	502	.0626	$44,615.38	2,792.92
N	8,023	1.000		
			$\bar{x}$ Strat=	$4,244.54

Strata	Ni/N	(Ni/N)^2	si	si^2	(Ni/N)^{2}si^2	(Ni/N)^{2}si^2/ni	(Ni/N)^2(si^2/ni)(Ni-ni/Ni-1)
A	.6222	.3871	476.48	227,033	87,884	3,380	3,363
B	.3152	.0993	5,041.44	25,416,117	2,523,820	97,070	96,110
C	.0626	.0039	81,983.87	6.72 . 10^9	26,213,284	1,008,203	957,893
						$\sigma_{\bar{x}}^2$ Strat =	1,057,366
						$\sigma_{\bar{x}}$ Strat =	$1,028.28

SE Total Strat = ± 1.645 . $1,028.28 . 8,023 = ± $13,571,069

Estimate of Potential Overpricing = $4,244.54 . 8,023 = $34,053,944

Confidence Interval = $20,482,875 to $47,625,013

STATISTICAL SUMMARY OF POTENTIALLY OVERPRICED
SPARE PARTS - DEFENSE LOGISTICS AGENCY DEFENSE CONSTRUCTION SUPPLY CENTER
FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987

3. COMPUTATIONS (continued)

Strata	Ni	Ni/N	$\bar{x}i$	$(Ni/N)\bar{x}i$
A	10,340	.7765	$ 0	$ 0
B	2,726	.2047	$ 3,102.26	635.03
C	250	.0188	$41,422.85	778.75
N	13,316	1.000		
			$\bar{x}$ Strat=	$1,413.78

Strata	Ni/N	$(Ni/N)^2$	si	si^2	$(Ni/N)^2si^2$	$(Ni/N)^2si^2/ni$	$(Ni/N)^2(si^2/ni)(Ni-ni/Ni-1)$
A.	7765	.6030	0	0	0	0	0
B.	.2047	.0419	3,641	13,256,881	555,426	37,028	36,837
C.	.0188	.0004	44,196	$1.95 \cdot 10^9$	781,305	71,027	68,174
						$\sigma_{\bar{x}}^2$ Strat =	105,011
						$\sigma_{\bar{x}}$ Strat =	$324.05

SE Total Strat = ± 1.645 . $324.05 . 13,316 = ± $7,098,226

Estimate of Potential Overpricing = $1,413.78 . 13,316 = $18,825,894

Confidence Interval = $11,727,668 to $25,924,120

STATISTICAL SUMMARY OF PASS-THROUGH COSTS FOR SPARE PARTS - ALL FOUR PROCUREMENT ACTIVITIES FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987*

1. Sampling Information

Total Number of NIIN's in Universe (N)	=	34,717
Number of Clusters (C)	=	4 (A, B, C, D)
Number of NIIN's in Universe by Cluster	=	N_A (6,410), N_B (8,221), N_C (7,912), N_D (12,174)
Number of NIIN's in Sample by Cluster	=	n_A (96), n_B (70), n_C (78), n_D (34)
Mean of the Cluster	=	$\bar{x}$ Clus
Standard Deviation of the Mean of the Cluster	=	$SE_{\bar{x}}$ Clus
Sampling Error of the Mean of the Cluster	=	$\sigma_{\bar{x}}$ Clus
Confidence Level (Z= 1.645)	=	90 Percent

2. Formulas

$$\sigma_{\bar{x}} \text{ cluster weight} = \sqrt{\sum \left(\frac{Ni}{N}\right)^2 \cdot \frac{(\bar{x}i - \bar{x}\ clus)^2}{C\ (C-1)}}$$

$$\bar{x} \text{ cluster weight} = \sum \frac{(Ni)}{(N)} \cdot \bar{x}i$$

* A combined estimate of pass-through costs is presented here rather than separate estimates for each activity because the sampling error rate was more precise. This summary is based on data from four activities or clusters: the U.S. Army Aviation Systems Command (cluster A), the U.S. Navy Aviation Supply Office (cluster B), the U.S. Air Force San Antonio Air Logistics Center (cluster C), and the Defense Logistics Agency Defense Construction Supply Center (cluster D).

STATISICAL SUMMARY OF PASS-THROUGH COSTS FOR
SPARE PARTS - ALL FOUR PROCUREMENT ACTIVITIES
FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987
(continued)

3. COMPUTATIONS

Cluster	Ni	Ni/N	$\bar{x}i$	(Ni/N)$\bar{x}i$
A	6,410	.1846	$ 2,029.42	$374.63
B	8,221	.2368	$ 109.27	25.87
C	7,912	.2279	$ 323.11	73.63
D	12,174	.3507	$ 73.74	25.86
N	34,717	1.000		
			$\bar{x}i$ clus =	$499.99

Cluster	Ni/N	(Ni/N)^2	$\bar{x}i$	($\bar{x}i$-$\bar{x}$ clus)	($\bar{x}i$-$\bar{x}$ clus)^2	(Ni/N)^2 ($\bar{x}i$-$\bar{x}$ clus)^2	$\frac{(Ni/N)^2}{(\bar{x}i-\bar{x}\ clus)^2/C(C-1)}$
A	.1846	.0341	2,029.42	1,529.43	2,339,156	79,765	6,647
B	.2368	.0561	109.27	(390.72)	152,662	8,564	714
C	.2279	.0519	323.11	(176.88)	31,287	1,624	135
D	.3507	.1229	73.74	(426.25)	181,689	22,329	1,861
						$\sigma_{\bar{x}}$ clus ^{2} =	9,357
						$\sigma_{\bar{x}}$ clus =	$96.73

$SE_{\bar{x}}$ clus = ± 1.645 . $96.73 . 34,717 = ± $5,524,169

Estimate of Pass Through Costs = $499.99 . 34,717 = $17,358,153

Confidence Interval = $11,833,984 to $22,882,322

STATISTICAL SUMMARY OF NONCOMPLIANCE IN THE USE OF THE SOURCE-IDENTIFICATION CLAUSE, ACTIVITY RATE

1. Sampling Information	Army/AVSCOM	Navy/ASO	Air Force/SAALC	DLA/DCSC	TOTALS
Total Number of NIIN's in Universe = N	7,782	9,213	5,882	16,386	30,050 [2/]
Total Number of NIIN's in Sample = n	144		75	55	274
Number of NIIN's in Sample with Errors = ne	19	[1/]	9	35	63
Confidence Factor at 90% (1.645) = Z					
Rate of Noncompliance in Use of the Source-Identification Clause, Activity Rate = P					

2. Formulas

Rate of Acquisition Method Code Error (P) = $\frac{ne}{n}$

Sample Error (SEp) = $\pm Z \sqrt{\frac{P(1-P)}{n} \cdot \frac{N-n}{N-1}}$

Sample Error pooled (SEp pooled) = $\pm Z \sqrt{\frac{pq1}{n1} + \frac{pq3}{n3} + \frac{pq4}{n4}}$

3. Estimate of Activity Noncompliance (P± SEp)	13.2% ± 4.6%	[1/]	12% ± 6.2%	63.6% ± 10.8%	40.4% ±13.2%
4. Number of Items in Noncompliance (Np)	1,027	[1/]	706	10,421	12,154
5. Confidence Interval	8.6% to 17.8%	[1/]	5.8% to 18.2%	52.8% to 74.4%	27.2% to 53.6%

[1/] ASO did not implement the requirement for the source-identification clause until after the audit period ended on June 30,1987.
[2/] Total does not include Navy/ASO total of 9,213.

STATISTICAL SUMMARY OF NONCOMPLIANCE IN THE USE OF THE SOURCE-IDENTIFICATION CLAUSE, CONTRACTOR RATE

1. Sampling Information	Army/AVSCOM	Navy/ASO	Air Force/SAALC	DLA/DCSC	TOTALS
Total Number of NIIN's in Universe = N	6,755	9,213	5,176	5,959	17,890 [2/]
Total Number of NIIN's in Sample = n	125		66	20	211
Number of NIIN's in Sample with Errors = ne	121	[1/]	50	4	175
Confidence Factor at 90% (1.645) = Z					
Rate of Noncompliance in the Use of the Source-Identification Clause, Contractor Rate = P					

2. Formulas

Rate of Acquisition Method Code Error (P) = $\frac{ne}{n}$

Sample Error (SEp) = $\pm Z\sqrt{\frac{P(1-P)}{n} \cdot \frac{N-n}{N-1}}$

Sample Error pooled (SEp pooled) = $\pm Z\sqrt{\frac{pq1}{n1} + \frac{pq3}{n2} + \frac{pq4}{n4}}$

3. Estimate of Contractor Noncompliance (P± SEp)	96.8% ± 2.6%	[1/]	75.8% ± 8.7%	20% ± 17.5%	65.1 ± 17.3%
4. Number of Items Noncompliance (Np)	6,539	[1/]	3,923	1,192	11,654
5. Confidence Interval	94.2% to 99.4%	[1/]	67.0% to 84.5%	2.5% to 37.5%	47.8% to 82.4%

1/ ASO did not implement the requirement for the source-identification clause until after the audit period ended on June 30,1987.
2/ Total does not include Navy/ASO total of 9,213.

HOW THE MILITARY DEPARTMENTS AND DEFENSE LOGISTICS AGENCY REPORT SAVINGS

	AVSCOM	ASO	SAALC	DCSC
- Are Foreign Military Sales (FMS) supposed to be reported?	Yes	No	No	Yes
- Did the audit disclose FMS being reported?	Yes	Yes	No	No
- Are urgent buys supposed to be reported?	No	No	Yes	Yes
- Did the audit disclose urgent buys being reported?	Yes 1/	Yes	Yes	No
- Are contracts that were terminated in a later quarter supposed to be reported?	No	No	Yes	No
- Did the audit disclose terminated contracts being reported in a later quarter?	No	Yes	Yes	Yes
- Are end items supposed to be included in the cost avoidance report?	No	No	Yes	Yes
- Did the audit disclose end items being reported?	No	Yes	Yes	No
- Does the cost avoidance report include cost avoidances only for activity screened AMC or Actual Method of Procurement (AMOP) of 2 or 4?	Yes	Yes	Yes	No 2/
- Did the audit disclose the activity reporting cost avoidances on other than activity screened AMC or AMOP's of 2 or 4?	Yes	Yes	No	Yes
- Are reverse or negative cost avoidances tracked and deducted from the cost avoidance report? (i.e., Current AMOP=5, Prior buy was AMOP=2)	Yes	No	No	No
- Are undefinitized contracts included in the cost avoidance report?	Yes 1/	Yes	No	No
- Does the cost avoidance report adjust for the effects of quantity on price?	Yes	No	No	Yes 3/

HOW THE MILITARY DEPARTMENTS AND DEFENSE LOGISTICS AGENCY REPORT SAVINGS
(continued)

	AVSCOM	ASO	SAALC	DCSC
- Did the activity produce a listing that details the National Stock Numbers included in the cost avoidance report?	No [1]	Yes	No	Yes
- Are contracts awarded pursuant to Section 8(a) of the Small Business Act excluded from the cost avoidance report?	No	No	No	No
- Is the cost avoidance reported based on the screening AMC determination or AMOP?	AMOP	AMC	AMOP	Neither [2]
- How many times may a cost avoidance be reported as an AMC (or AMOP) of 2 or 4?	Several	One time in total	One time each	Each time a new source is added
- What does the activity use to compute a cost avoidance when there is no record of a prior buy to be used for comparison? Is the cost avoidance generally computed based on the standard price (Std. Pr.), the extrapolated results of the activity's experience on AMOP's of 2 or 4 with experience (Extrap) or the difference between the highest quote and the actual price on the current contract (Quote)?	Extrap [4]	Std. Pr.	Extrap [4]	Quote
- Does the activity report cost avoidances for the spare parts breakout program because a part that is no longer needed results in the purchase request being canceled?	No	No	No	Yes
- Does the activity report cost avoidances for the production lead time saved because a part can be procured faster than it previously had been and less stock is needed to be maintained?	No	No	No	Yes
- Does the activity report cost avoidances for the spare parts breakout program because a part now standardized, is no longer needed and, as a result, the purchase request is canceled?	No	No	No	Yes

HOW THE MILITARY DEPARTMENTS AND DEFENSE LOGISTICS AGENCY REPORT SAVINGS
(continued)

	AVSCOM	ASO	SAALC	DCSC
- Does the activity report cost avoidances for the spare parts breakout program resulting from the use of component parts in lieu of assembly?	No	No	No	Yes
- Does the activity report cost avoidances for the spare parts breakout program resulting from reclamation activity?	No	No	No	Yes
- Does the activity report cost avoidances for the spare parts breakout program resulting from the replacement of an item with another less expensive, but acceptable, item?	No	No	No	Yes
- Does the activity report cost avoidances for the spare parts breakout program resulting from the utilization of rebuilt or surplus material through the use of rebuild, rework, or other standards?	No	No	No	Yes
- Is the cost avoidance report primarily a computer generated report (Comp) or primarily a manually generated report (Man)?	Comp	Man	Comp	Man
- Which year(s) does the activity research if a prior buy exists that meets the activity's requirements for reporting a cost avoidance?	The 3 Prior FY's	All	Only FY 1983	All
- Number of fiscal years prior to the current fiscal year that the activity's inflation index adjusts.	The 3 Prior FY's	No Less Than 5	Only FY 1983	None [5/]
- If there was more than one prior contract in the qualifying period for prior contracts, was the most recent qualifying contract used (Recent) or was a weighted average computed for all prior contracts in the qualifying period (Wtd-Avg)?	Wtd-Avg	Recent	Wtd-Avg	Neither [5/]

HOW THE MILITARY DEPARTMENTS AND DEFENSE LOGISTICS AGENCY REPORT SAVINGS

(continued)

	AVSCOM	ASO	SAALC	DCSC
- What is the activity's source of its inflation index?	DoD	NAVSUP	DOL	None Used [5/]

NOTES

[1/] The Army Materiel Command reports that corrective actions are planned or have been taken.

[2/] DCSC reports a cost avoidance every time a new actual manufacturer is added to the list of potential sources. Under DCSC's criteria a cost avoidance should be reported for AMOP's of 2 or 4 and could be reported for AMOP's of 1.

[3/] Because DCSC's method of computing cost avoidances at times considers only the differences between the high and winning bid on the current contract the effects of quantity buys on price are implicitly considered.

[4/] AVSCOM and SAALC calculate the cost avoidance percentage used for extrapolation differently.

[5/] DCSC does not use an inflation index. Even though DCSC generally uses the difference between the high and winning bid it, at times, considers the prior price when computing cost avoidances. If prior prices are considered they are neither adjusted for inflation nor adjusted for the effects of quantity buys on price.

DESCRIPTION OF REPORTED PROGRAM OPERATING COSTS FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987

ARMY AVIATION SYSTEMS COMMAND

Cost includes the following items:	
Budgeted and estimated employee direct salary cost for Spare Parts Review Initiatives employees. (Does not include fringe benefit costs.)	$5,300,000 1/
Budgeted Cost of the Competition and Spares Management Office expenditures for equipment, overtime, travel and per diem, training, purchased services, and the cost of Permanent Change of Station (PCS) moves. (Does not include fringe benefit costs.)	2,300,000
Breakout contractor costs obligated during the audit period.	759,263
Total costs reported	$8,359,263 2/

Does not include:

1/ An estimated or actual allocable share of indirect operating and administrative costs.

2/ An estimate of the qualification costs passed on by the contractors (in first article tests not separately priced) or by Government contract administrators.

DESCRIPTION OF REPORTED PROGRAM OPERATING COSTS FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987
(continue)

NAVY AVIATION SUPPLY OFFICE

Cost includes the following items:

Estimated labor costs including overtime and fringe benefits. Also included are actual costs including travel, office supplies, equipment, and reimbursement of contributed engineers costs. (Does not include the cost of breakout contractors separately stated below.)	$ 7,011,743 3/
The actual incurred cost of the breakout contractors VSE Corporation & DHD Incorporated.	7,613,076
Estimated costs of breaking out flight critical parts by the Naval Air Systems Command (NAVAIR).	1,249,301 4/
Total costs reported	$15,874,120 5/

3/ Does not include estimated or actual allocable share of indirect operating or administrative expenses, military personnel costs and the costs of ASO Code CD-B (voluntary breakout & cost avoidance reporting).

4/ The NAVAIR costs are based on estimated direct employee costs and estimated per diem costs. Not included in NAVAIR's costs are employee fringe benefits, supervisory or clerical support, and an allocable share of indirect operation and administrative expenses. The costs of the Naval Air Propulsion Centers and Naval Aviation Depots are based on estimates.

5/ Does not include an estimate of the qualification costs passed on by the contractor (in first article test not separately priced) or by Government contract administrator.

DESCRIPTION OF REPORTED PROGRAM OPERATING COSTS FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987
(continued)

SAN ANTONIO AIR LOGISTICS CENTER

Cost includes the following items:

Actual cost of labor and overtime for screening technicians and engineers	$2,657,641 6/
Total costs reported	$2,657,641 7/

Does not include:

6/ Direct fringe benefits, direct operating expenses, direct supervisory and administrative expenses, and an allocable share of indirect operating and administrative expenses.

7/ An estimate of the qualification costs passed on by the contractors (in first article tests not separately priced) or by Government contract administrators.

DESCRIPTION OF REPORTED PROGRAM OPERATING COSTS FOR THE PERIOD JULY 1, 1986, THROUGH JUNE 30, 1987
(continued)

DEFENSE CONSTRUCTION SUPPLY CENTER

Cost includes the following items:

Actual cost of labor for the Replenishment Parts Breakout Branch	$532,995 8/
Total costs reported	$532,995 9/

Does not include:

8/ The labor and related costs of the other seven branches that perform spare parts breakout activities. Other costs not accounted for include: direct fringe benefits, direct operating expenses, direct supervisory and administrative expenses, and an allocable share of indirect operating and administrative expenses.

9/ An estimate of the qualification costs passed on by the contractors (in first article tests not separately priced) or by Government contract administrators.

REASONS FOR INADEQUATE SCREENING OF SPARE PARTS

Condition 1/	Spare Parts At AVSCOM	Spare Parts At ASO	Spare Parts At SAALC	Spare Parts At DCSC	Total Spare Parts
1	1	5	0	0	6
2	3	6	5	2	16
3	0	1	1	0	2
4	6	3	11	6	26
5	0	0	2	0	2
6	0	1	0	2	3
7	0	7	0	2	9
8	13	5	10	4	32
Total	23	28	29	16	96

1/ Condition	Description
1	Proprietary rights claims were not researched to determine validity.
2	Proprietary rights claims were not formally challenged (legal issues).
3	Limited rights challenges were not followed up with a letter to the contractor or were untimely.
4	Missing data problems were not followed up with a letter or call (if written evidence existed) or followup was untimely.
5	Missing data problems were not resolved because data were not purchased and purchase was justified (economically feasible, etc.)
6	Limited screening was not performed prior to buy, as required by the activity's limited screening threshold.
7	Full screening was not performed prior to buy, due to screening threshold.
8	Other -- e.g., not considering reverse engineering, not considering bailment, not publishing future buy listings.

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D C. 20301-8000

Nov 2, 1989

PRODUCTION AND
LOGISTICS

(L/SD)

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Draft Report on the Audit of the Spare Parts Program (Project. No. 7AP-5019)

These comments are in response to your request of August 28, 1989, on the subject draft audit report for those recommendations addressed to the Assistant Secretary of Defense (Production and Logistics). We concur in all of those recommendations. Specific actions to implement them are as follows:

Recommendation IIAI: Establish a working group comprised of representatives from the spare parts buying offices to develop guidance that will be used to consistently determine costs and report savings for full screening and limited screening.

Comment: Concur. Actions are underway to establish a working group to develop guidance as recommended. A Breakout Program Managers Workshop being held on November 8-9, 1989, with representation from spare parts buying offices, will address the core issues of costs and savings for full and limited screening. The working group will provide recommendations by April 1990.

Recommendation IIA2: Implement a uniform accounting system calculate and report historical Spare Parts Breakout Program savings and costs, both direct and indirect.

Comment: Concur. The working group mentioned in IIAI above will recommend a uniform DoD accounting system to calculate and report historical Spare Parts Program costs and savings. Recommendations are to be provided by April 1990.

Recommendation IIA3: Give priority to full screening rather than limited screening of spare parts with a high annual buy requirement.

Comment: Concur: In accordance with the provisions of the Defense Federal Acquisition Regulation Supplement (SUP 6), Service and Defense Logistics Agency Breakout Program Managers will be

encouraged to give priority to full screening rather than limited screening of spare parts with high annual buy requirements within the resources allocated for such screening actions. Action is to be completed by April 1990.

Recommendation IICI: We recommend that the Assistant Secretary of Defense (Production and Logistics) issue guidance to the Military Departments and the Defense Logistics Agency that makes source-of-supply data a contract line item subject to the same conditions as other deliverables.

Comment: Concur. Guidance to the Military Departments and Defense Logistics Agency will be issued by February 15, 1990. Keeping in mind that line item funding, engineering judgment, individual line item characteristics, and other factors impact the ultimate execution of this recommendation, guidance will reflect aggressive use of source-of-supply data as a contract line item where appropriate. Action is to be completed by April 1990.

The DoD Spare Parts Program continues to be a cornerstone of the Department's effort to increase quality and lower price through the exercise of sound engineering and business judgment. This audit has helped us to refocus our efforts on this high-return issue.

R.L. Beckwith

R.L. BECKWITH, MGen, USMC
Military Deputy to
Assistant Secretary of Defense (P&L)

DEPARTMENT OF THE ARMY
OFFICE OF THE UNDER SECRETARY
WASHINGTON D C 20310 0102

30 October 1989

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

The subject draft report has been reviewed by the Department of the Army. The Army generally concurs with the draft audit report and our comments are provided at the enclosure.

If you have any questions or need additional information, please contact Mr. Eric A. Orsini, Deputy Assistant Secretary of the Army for Logistics, Office of the Assistant Secretary of the Army (Installations, Logistics and Environment).

John W. Shannon
Under Secretary of the Army

Enclosure

ARMY COMMENTS
DEPARTMENT OF DEFENSE INSPECTOR GENERAL
AUDIT OF SPARE PARTS BREAKOUT PROGRAM
(PROJECT NO. 7AP-5019)

The Office of the Assistant Inspector General's draft audit report on the Audit of Spare Parts Breakout Program has been reviewed and the following comments are provided:

o The Army concurs with the information and the savings calculations concerning the Aviation Systems Command (AVSCOM) in Finding A - Cost-Effectiveness of Spare Parts Breakout Program.

o The Army concurs, with comment, with the finding, recommendation 1, and the estimated potential overpricing of approximately $9.0 million in Finding B - Breakout Screening and Coding. In recommendation 1, the following changes are proposed:

- Change the last portion of the recommendation to read: ". . . assign Acquisition Method Codes to all parts in the inventory that are expected to be procured, request missing or incomplete data, and challenge technical data rights restrictions."

- Rationale for this change is that since monetary savings would only accrue when an item is procured, the assignment of Acquisition Method Codes to all items in the inventory would serve no purpose and would be extremely labor intensive. Also, the deletion of the word "limited" in the last phrase of the recommendation we believe will provide a significant clarification.

- The Army Acquisition Executive (AAE) will publish additional directions reemphasizing to all the appropriate organizations, the importance to adhere to Defense Federal Acquisition Regulation Supplement (DFARs), Supplement 6.

o The Army concurs with Finding C - Identification of Supply Sources, the estimated pass-through costs and recommendation 2 as it applies to the Commander, AVSCOM. Direction will be given to the Commander, AVSCOM, as well as all other buying offices to obtain source-of-supply information required by the recommendation.

o The Army concurs with the AVSCOM internal control weaknesses as identified in the draft audit report. In FY 1990 these areas will be reviewed on an Army-wide basis to determine if the Army has a systemic internal control weakness in these areas that should be reported by the Secretary of the Army in his Annual Assurance Statement to the Secretary of Defense.

DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON, D.C. 20360-5000

OCT 27 1989

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DRAFT REPORT ON THE AUDIT OF THE SPARE PARTS BREAKOUT PROGRAM (PROJECT NO. 7AP-5019)

Encl: (1) Navy Comments

In reply to your memorandum of August 28, 1989, we have reviewed the findings and recommendations in the subject report. We concur with Finding A that there is no uniform system for measuring cost avoidance; however, we do not agree that the Aviation Supply Office (ASO) overstated savings. We concur that administrative errors occur related to updating files. We do not agree that ASO personnel did not fully screen spare parts in accordance with the Defense Federal Acquisition Regulation Supplement, Supplement No. 6. We concur with your finding on the failure to use the source of supply clause.

We concur with the recommendations directed to the Navy.

Our detailed comments are in enclosure (1).

Frank Swofford

FRANK W. SWOFFORD
By Direction of the Secretary of the Navy

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)
NAVSUP (SUP-91)

NAVY COMMENTS
ON
AIG(A) DRAFT REPORT
ON
SPARE PARTS BREAKOUT PROGRAM
(PROJECT NO. 7AP-5019)

I. Section A. Cost Effectiveness of Spare Parts Breakout Program

Summary of Finding

Although the Military Departments and the Defense Logistics Agency (DLA) had reported significant savings through the breakout of spare parts, they were unable to accurately determine the cost-effectiveness of their Spare Parts Breakout Programs (the Program). This condition occurred because OSD did not issue guidance on how to consistently determine savings and costs, and the Military Departments and DLA did not have a uniform accounting system for calculating savings and accumulating costs. Reported Program costs were based on a combination of actual expenditures, budgeted amounts, estimates and obligations. Consequently, the Military Department and DLA buying activities did not identify and fully screen parts with high-value requirements to achieve the greatest savings. Also, savings of $28.7 million that the four inventory control points reported to OSD for our sample items, were overstated by $8.2 million because of reporting errors and by another $8.0 million because each inventory control point used different criteria to determine savings. The ASO portion of the $28.7 million was $9,477,478 and resulted from incorrect reporting on 19 items.

Navy Comment

Partially concur. Concur with the statement that no uniform DOD system for measuring cost avoidance exists. Do not concur in the alleged overstatement of ASO reported savings. Specific National Stock Numbers (NSNs) are not provided for the alleged overstatement of $9,477,478 in cost savings so a line item reconciliation is impossible. Nevertheless, ASO was able to determine that the bulk of this overstatement was caused by two items which contributed $8,552,627 of the alleged overstatement. We disagree that these two items caused any overstatement. Our taking exception on these two items ties back to the auditors misunderstanding of ASO's rules for counting cost avoidance on urgent buys. ASO's rules do not permit cost avoidance to be measured between a current breakout buy and a previous "urgent procurement" because that might cause an overstatement of savings if a premium price was paid for the urgent buy. However, ASO does measure savings from new breakout buys which were expedited on a "statement of urgency" but still cost less than previous routine stock procurements. The ASO previous buy was not an "urgent" buy. Thus, the calculated savings was correct. The $8,552,627 savings were reported in accordance with existing rules and the alleged discrepancy should be reduced accordingly. Additionally, while we acknowledge some errors occurred as the reporting system was developed and implemented, we cannot complete the reconciliation for the balance of the amount since no details were provided.

Recommendations

We recommend that the Assistant Secretary of Defense (Production and Logistics) (ASD (P&L)):

1. Establish a working group comprised of representatives from the spare parts buying offices to develop guidance that will be used to consistently determine costs and report savings for full screening and limited screening.

Navy Comment

Concur. Defer on the particulars since the action is for ASD(P&L).

2. Implement a uniform accounting system to calculate and report historical Spare Parts Breakout Program savings and costs, both direct and indirect.

Navy Comment

Concur. Navy will require twelve (12) months to implement a a uniform system after ASD (P&L) direction is provided.

3. Give priority to full screening rather than limited screening of spare parts with a high annual buy requirement.

Navy Comment

Concur. The Navy breakout program has already implemented this idea. Currently, breakout program performance is measured against Return On Investment (ROI). The highest ROI results from full screening of high annual buy requirements.

II. Section B. Breakout Screening and Coding

Summary of Finding

Breakout screening personnel did not correctly code and did not fully screen spare parts. This occurred because personnel responsible for breakout screening and coding were not promptly and properly recoding parts, requesting missing or incomplete data, or challenging limited technical data rights restrictions in accordance with DAR, Supplement No. 6. As a result, buyers did not have current breakout information when purchasing spare parts from contractors, and of 66,691 spare parts that were procured from 1 July 1986 thru 30 June 1987, we estimated that:

- 35,585 spare parts had been assigned an incorrect AMC (estimated 1,907 ASO items)

- 9,135 spare parts containing restrictive technical data packages were not systematically reviewed and challenged as appropriate, causing $90.1 million in additional costs to be incurred. (estimated 2,627 ASO parts...causing $28.2 million in additional costs to be incurred)

Navy Comment

Non-concur that ASO breakout screening personnel did not correctly and did not fully screen spare parts in accordance with DOD Federal Acquisition Regulation Supplement, Supplement No. 6 (DFARSS 6). However, we do concur that administrative errors relative to updating and adding of vendors in the Management Information File (MIF) do exist. DFARSS 6 delineates four methods of screening to be used in the assignment of Acquisition Method Codes (AMCs). The methods are provisioning, contractor technical information coding, limited screen and full screen.

Limited and full screening procedures were addressed by the auditors. Results of the auditors review and subsequent finding clearly indicates a misinterpretation of the DFARSS 6 by the auditors. DFARSS 6 does not require either a full screen to be accomplished on every item or completion of all 65 steps in the full screen review prior to assignment of an AMC/AMSC. The DOD breakout screening criteria in place for the period covered by the audit report mandated the induction of non-competitive, i.e., not assigned a fully competitive AMC/AMSC, items for full screen review with anticipated annual buy value (ABV) greater than $10K. Several of the items reviewed by the auditors did not meet this criteria and were less than $10K ABV. In most cases the items cited by the auditors were reviewed based on the DFARSS 6 limited screen procedures which apply only to immediate buy procurements. Accordingly, obtaining additional documentation, e.g., missing data or challenge data rights, is not accomplished as part of the limited screen review as stated in the audit report (page 33). The DFARSS 6 limited screen 13

procedures clearly state that "extensive legal review of rights or technical review of data is not required; nor is backup information on type and extent of qualification testing quality control procedure and master tooling required...If the government does not have in its possession sufficient, accurate or legible data, action shall be promptly initiated to resolve the deficiency for the next buy." NSNs were not provided for the 25 ASO managed items (page 26) which the auditors allege "incorrect AMC coding". However, attempts to validate potential savings on the 25 ASO managed items are in process at this time. We do not concur with the alleged overstatement of $28.2 million "additional costs incurred" pending ASO's validation of the 25 NSNs to be provided by the auditors. 15

Recommendations

1. We recommend that the Acquisition Executives for the ...Navy... adhere to the DFARSS 6, by requiring screening and coding personnel to update AMCs to all parts in the inventory, request missing or incomplete data, and challenge limited technical data rights restrictions.

Navy Comment

Concur with the intent of this recommendation that breakout personnel screen, code and update parts in the inventory based on criteria mandated by DFARSS 6. The Navy is in full compliance with DFARSS 6 which does not include provisions for screening and coding personnel to update AMCs to "all" parts in the inventory. The DFARSS 6 states "a part shall be made a candidate for breakout screening based on its cost effectiveness for breakout."

3. We recommend that the Commanding Officer, Navy Aviation Supply Office establish a mechanism for communicating supply-source information identified on procurement history records between screening and purchasing activities.

Navy Comment

Concur. ASO MIF is currently updated to include the identification of all Navy "approved" sources of supply and record the AMC/AMSC assigned as a result of full screen breakout review. Competition data base files are now cross matched to verify the AMC/AMSC updates in the MIF are accurately recorded.

III. Section C. Identification of Supply Sources

Summary of Finding

We estimated that AVSCOM, SAALC, and DCSC did not include the required Source-of-Supply Clause (the Clause) in the contracts for 12,154 (40.4 percent) of 30,050 spare parts and ASO did not use the clause in any of its contracts. Of the contract actions containing the Clause, we estimated that the contractors failed to provide such data on 11,654 (65.1 percent) of 17,890 spare parts purchased on these contract actions. These conditions existed because contracting officers failed to comply with Defense Acquisition Regulation Supplement, Section 17.7204, which provided guidance on when to obtain source-of-supply data, and failed to enforce contractor compliance with the Clause. The absence of these source-of-supply data deprived breakout managers of opportunities to identify actual manufacturers and to achieve additional savings. From a separate sample of 34,717 sole-source spare part procurements, we estimated that AVSCOM, ASO, SAALC, and DCSC incurred $17.4 million in pass-through costs by not buying 2,375 parts from the actual manufacturer.

Navy Comment

Concur. ASO now complies with DFAR 17.7204 and includes the required clause in all applicable ASO contracts. The Navy portion of the $17.4 million alleged in the audit report as "incurred passthrough" costs have not been identified by the auditors. Therefore, we cannot validate those alleged costs at this time.

Recommendations

1. The Assistant Secretary of Defense (Production and Logistics) issue guidance to the Military Departments and the Defense Logistics Agency that makes source-of-supply data a contract line item subject to the same conditions as other deliverables.

Navy Comment

Defer to the Assistant Secretary of Defense (Production and Logistics) for response to this recommendation.

2. The Commander, Army Aviation Systems Command; the Commander, Aviation Supply Office; the Commander, San Antonio Air Logistics Center; and the Commander, Defense Construction Supply Center direct contracting personnel to obtain source-of-supply information through prime contractors, contract administration offices, and the Defense Contract Audit Agency when the information has not been previously obtained.

Navy Comment

Concur. The ASO contracting office is preparing a Policy and Procedures Memorandum which will be issued to all buyers and will stress that source-of-supply information must be obtained from the contractor, DCAS or DCAA and the clause requiring such information must be included in all contracts for spare parts. Additionally, ASO has access to this information through computer terminals that interface with several prime contractor databases; e.g., Sikorsky, General Electric, Lynn, MA, Grumman and McDonnell-Douglas. ASO also provides listings of ASO managed items to Prime contractors, NAVPRO, ARPRO and other contract administration offices and requests that they identify the actual manufacturers of these items.

DEPARTMENT OF THE AIR FORCE
OFFICE OF THE CHIEF OF STAFF
UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330 -2000

17 November 1989

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: DoD (IG) Draft Report, "Spare Parts Breakout Program," (Project 7AP-5019) - INFORMATION MEMORANDUM

This is in reply to your memorandum for Comptroller of the Air Force, dated 28 August 1989, requesting comments on the findings and recommendations made in the subject report. On page iii you requested our evaluation of the estimated additional spare parts costs incurred July 1986 through June 1987 due to inaccurate coding and screening. AFLC is unable to confirm or refute the stated overpricing since each item would have to be individually analyzed as it was coded at the time of the audit. A recent audit by the Air Force Inspector General, 18 October 1989, however, noted that the SA-ALC Competition Advocate was aggressively breaking down barriers to competition. It indicated SA-ALC was screening all purchase requests to assess potential competition and had developed a technique to quantify savings and the cost effectiveness of competition. This audit provides a more recent assessment of the Air Force's implementation of the Competition in Contracting Act.

Carl R. Smith
CARL R. SMITH, Lt General, USAF
Assistant Vice Chief of Staff

1 Atch
Comments

DoD (IG) DRAFT REPORT OF AUDIT OF SPARE PARTS BREAKOUT PROGRAM (Project 7AP-5019)

Comment on Finding A:

There is an error in the discussion of details regarding screening low dollar value items at SA-ALC. The activity comparison table on page 16 (Note 4/) lists that SA-ALC "did not perform limited screening." This is incorrect. Limited screenings are done on an exception basis in the strictest definition of DFAR Sup 6. Both DFAR Sup 6 and SA-ALC/KAFB 57-2 provide the authority and guidance for limited screening. Also, SA-ALC implemented a zero dollar screening threshold on 1 Apr 88 which is intended to ensure the screening of all items. This initiative was put into effect during the DoD (IG) observation period. 9

Recommendations:

We recommend that the Assistant Secretary of Defense (Production and Logistics):

Recommendation 1. Establish a working group comprised of representatives from the spare parts buying offices to develop guidance that will be used to consistently determine costs and report savings for full screening and limited screening.

Recommendation 2. Implement a uniform accounting system to calculate and report historical Spare Parts Breakout Program savings and costs, both direct and indirect.

Recommendation 3. Give priority to full screening rather than limited screening of spare parts with a high annual buy requirement.

Management Comments:

Recommendation 1. Concur.

Recommendation 2. Concur.

Recommendation 3. Concur. SA-ALC already gives priority consideration to full rather than limited screening of spare parts with high annual buy requirements. All of these requirements receive intense review to improve competition.

Comment on Finding B:

SA-ALC concurs there were discrepancies in 36% of the items sampled, but the reasons for these discrepancies must be

understood in order to realize that their importance is minor. A cited example is the failure to recode Acquisition Method Codes (AMC) 2 and 4 to AMC 1 and 3, respectively, after the parts' first acquisition. While the observation is correct, it does not change whether an item is procured competitively or sole source. As stated to the auditors, these erroneous codes have no effect on savings.

Actual Method of Procurement (AMOP) codes not agreeing with the AMC does present some difficulties in determining proper AMC during subsequent rescreenings. This is not totally avoidable since the AMC assignment comes from data considerations during screening and the AMOP code is determined later by whether only one contractor bids and other considerations. In any event, there is no correlation to savings or effectiveness.

The 66,691 spare parts considered for this audit were procured from 1 Jul 86 through 30 Jun 87. Therefore the screening of these items was accomplished from three, or sometimes, five years prior to procurement. The screening for some items may have dated back to 1981. Since the audit addressed procured items which had been screened prior to the audit period, it missed the effects resulting from the Competition in Contracting Act and associated directives implemented in the 1984 time frame. Since then, SA-ALC has been requesting missing or incomplete data and challenging limited technical data rights restrictions in accordance with DFAR Sup 6.

Recommendations:

Recommendation 1. We recommend that the Acquisition Executives for the Army, Navy, Air Force, and the Director of Defense Logistics Agency, adhere to the DFAR Sup 6, by requiring screening and coding personnel to update AMC in a timely manner, assign AMC to all parts in the inventory, request missing or incomplete data, and challenge limited technical data rights restrictions.

Recommendation 2. We recommend that the Commander of Defense Construction Supply Center adhere to the DFAR Sup 6, by requiring breakout managers to recognize dealers and other nonmanufacturing sources as valid sources of supply when assigning AMC.

Rcommendation 3. We recommend that the Commander of Navy Aviation Supply Office, establish a mechanism for communicating supply-source information, identified on procurement history records, between screening and purchasing activities.

Management Comments:

Recommendation 1. Concur.

Recommendation 2. Concur with intent. DoD (IG) is correct in discussing commercial items. Dealers and distributors are valid sources on these items since there is only one manufacturer available and the government is buying a known item. Exclusion of dealers and distributors from coding and subsequent solicitation on commercial items would be costly to the government since these sources often provide considerable cost savings through price competition.

Recommendation 3. No comment.

Finding C.

Recommendations:

Recommendation 1. We recommend that the Assistant Secretary of Defense (Production and Logistics) issue guidance to the military departments and the Defense Logistics Agency that makes source of supply data a contract line item subject to the same conditions as deliverables.

Recommendation 2. We recommend that the Commander, Army Aviation Systems Command, Commander, Navy Aviation Supply Office, Commander, San Antonio Air Logistics Center, and Commander, Defense Construction Supply Center, direct contracting personnel to obtain source of supply information through prime contractors, contract administration offices, and the Defense Contract Audit Agency when the information has not been previously obtained.

Management Comments:

Recommendation 1. Concur.

Recommendation 2. Concur. SA-ALC incorporates the source of supply in all solicitations. A policy letter has also been issued reminding contracting officers it is their responsibility to enforce the identification of source of supply information from prime contractors.

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

13 NOV 1989

IN REPLY REFER TO DLA-CI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

This is in response to your 28 Aug 89 memorandum requesting our comments pertaining to the audit of the Spare Parts Breakout Program (Project No. 7AP-5019). The attached positions have been approved by Mr. William J. Cassell, Comptroller, Defense Logistics Agency.

FOR THE DIRECTOR:

Reathea E. Holmes

7 Encl

REATHEA E. HOLMES
Chief, Internal Review Division
Internal Review Division

cc:
OASD(P&L) (Mr. Jay Thomas)

TYPE OF REPORT: AUDIT DATE OF POSITION: 13 Nov 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

FINDING A: Cost-Effectiveness of Spare Parts Breakout Program. Although the Military Departments and the Defense Logistics Agency (DLA) had reported significant savings through the breakout of spare parts, they were unable to accurately determine the cost-effectiveness of their Spare Parts Breakout Programs (the Program). This condition occurred because OSD did not issue guidance on how to consistently determine savings and costs, and the Military Departments and DLA did not have a uniform accounting system for calculating savings and accumulating costs. Reported Program costs were based on a combination of actual expenditures, budgeted amounts, estimates, and obligations. Consequently, the Military Department and DLA buying activities did not identify and fully screen parts with high-value requirements to achieve the greatest savings. Also, savings of $28.7 million, that the four inventory control points reported to OSD for our sample items, were overstated by $8.2 million because of reporting errors and by another $8.0 million because each inventory control point used different criteria to determine savings.

DLA COMMENTS: Partially concur. DLA uses established criteria to report competition savings. These savings are justifiable and are on the conservative side. There has been no successful challenge on cases reported. DLA will examine the policy on cost/savings and ensure that the policy in place is correct.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Phil Altman, DLA-SCT, 46793

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT DATE OF POSITION: 13 Nov 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

FINDING B: Breakout Screening and Coding. Breakout screening personnel did not correctly code and did not fully screen spare parts. This occurred because personnel responsible for breakout screening and coding were not promptly and properly recoding parts, requesting missing or incomplete data, or challenging limited technical data rights restrictions in accordance with DAR, Supplement No. 6. As a result, buyers did not have current breakout information when purchasing spare parts from contractors, and of 66,691 spare parts that were procured from July 1, 1986, through June 30, 1987, we estimated that:

- 35,585 spare parts had been assigned an incorrect AMC; and

- 9,135 spare parts containing restrictive technical data packages were not systematically reviewed and challenged as appropriate, causing $90.1 million in additional costs to be incurred.

DLA COMMENTS: Partially concur. Timeliness was more a factor than mistakes being made in coding items. DLA(DCSC) does not feel that any items added to the DCSC inventory were coded improperly. DLA has the responsibility for assigning priority to SCR USLOH4-114C which will implement changes to SAMMS that will enhance our coding capabilities. Although DCSC did incur these additional costs, the costs to the Defense Stock Fund were passed on to the customers in the form of higher standard prices. Therefore, DCSC customers have already paid the higher costs incurred. Any savings identified by the IG report will be translated to the Military Service customers in the form of lower standard prices.

MONETARY BENEFITS: None
DLA COMMENTS:

ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Phil Altman DLA-SCT 46793

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT DATE OF POSITION: 13 Nov 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

RECOMMENDATION B.1.: We recommend that the Acquisition Executives for the Army, Navy, and Air Force and the Director, Defense Logistics Agency, adhere to the Defense Federal Acquisition Regulation Supplement, Supplement No. 6, by requiring screening and coding personnel to update Acquisition Method Codes in a timely manner, assigned Acquisition Method Codes to all parts in inventory, request missing or incomplete data, and challenge limited technical data rights restrictions.

DLA COMMENTS: Partially concur. We have provided DCSC and our other Defense Supply Centers guidance to accomplish the above items. There are no invalid codes resident in the Defense Integrated Data System (DIDS)/Contracting Technical Data File (CTDF). Edit criteria prohibit this occurrence. Codes are assigned by the Military Services at the time of provisioning or logistic reassignment to DCSC. A valid code is input to the DIDS at DCSC and a skeleton CTDF is automatically built with the code. Implementation of a systems change request will alleviate the problem of timely recoding.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 30 Sep 90
( ) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Phil Altman DLA-SCT 46794

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT DATE OF POSITION: 13 Nov 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

RECOMMENDATION B.2.: We recommend that the Commander, Defense Construction Supply Center, adhere to the Defense Federal Acquisition Regulation Supplement, Supplement No. 6, by requiring breakout managers to recognize dealers and other nonmanufacturing sources as valid sources of supply when assigning Acquisition Method Codes.

DLA COMMENTS: Nonconcur. We feel this approach in recognizing dealers and other nonmanufacturing sources is not an acceptable policy and could lead to price fixing and collusion. This is not true competition but only competition in pricing.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Phil Altman DLA-SCT 46793

DLA APPROVAL: William J Cassell

TYPE OF REPORT: AUDIT DATE OF POSITION: 13 Nov 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

FINDING C: Identification of Supply Sources. We estimated that AVSCOM, SAALC, and DCSC did not include the required Source-of-Supply Clause (the Clause) in the contracts for 12,154 (40.4 percent) of 30,050 spare parts and ASO did not use the Clause in any of its contracts. Of the contract actions containing the Clause, we estimated that the contractors failed to provide such data on 11,654 (65.1 percent) of 17,890 spare parts purchased on these contract actions. These conditions existed because contracting officers failed to comply with Defense Federal Acquisition Regulation Supplement, Section 17.7204, which provided guidance on when to obtain source-of-supply data, and failed to enforce contractor compliance with the Clause. The absence of these source-of-supply data deprived breakout managers of opportunities to identify actual manufacturers and to achieve additional savings. From a separate sample of 34,717 sole-source spare part procurements, we estimated that AVSCOM, ASO, SAALC, and DCSC incurred $17.4 million in pass-through costs by not buying 2,375 parts from the actual manufacturers.

DLA COMMENTS: Partially concur. The DCSC did not include the required Source-of-Supply clause in 35 of the 55 contracts reviewed in the audit, as it had not fully implemented use of the clause in small purchases at the time (1 Jul 86 - 30 Jun 87). However, DCSC had been obtaining similar information through use of locally developed clauses in all of its large and small purchase solicitations.

Implementation has since been completed and a recent DCSC random sample of 50 contracts disclosed that the DFARS clause is now included in all solicitations.

We understand that the computation of DCSC pass-through costs is based on a finding of such costs totalling approximately $876 on 2 contracts of the 34 contracts reviewed. These pass-through costs were utilized by the Auditor to compute a stratified average of $73.74 for each of the 34 contracts reviewed. Accordingly, the estimated total pass-through cost for the 12,174 items in the review managed by DCSC represents less than $900,000 of the $17.4 million total estimated for the four activities audited.

MONETARY BENEFITS: $0
DLA COMMENTS: Nonconcur. Cannot be quantified.
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: $0
DATE BENEFITS REALIZED: N/A

ACTION OFFICER: Mr. Greg Ellsworth, DLA-P (DSPCO), 44370

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT DATE OF POSITION: 13 Nov 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

RECOMMENDATION C.1.: We recommend that the Assistant Secretary of Defense (Production and Logistics) issue guidance to the Military Departments and the Defense Logistics Agency that makes source-of-supply data a contract line item subject to the same conditions as other deliverables.

DLA COMMENTS: Nonconcur. A recent DCSC random sample of 50 contracts indicated that the information required by the Source-of-Supply clause was obtained in 49 instances. Making source-of-supply data a contract line item would add an administrative burden to the contracting process with no potential benefit for the contracts we award.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Mr. Greg Ellsworth, DLA-P (DSPCO), 44370

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT DATE OF POSITION: 13 Nov 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NUMBER: Audit of the Spare Parts Breakout Program (Project No. 7AP-5019)

RECOMMENDATION C.2.: We recommend that the Commander, Army Aviation Systems Command; the Commander, Navy Aviation Supply Office; the Commander, San Antonio Air Logistics Center; and the Commander, Defense Construction Supply Center direct contracting personnel to obtain source-of-supply information through prime contractors, contract administration offices, and the Defense Contract Audit Agency when the information has not been previously obtained.

DLA COMMENTS: Nonconcur. A DCSC random sample demonstrated that the Source-of-Supply clause is being included and the required information is being obtained by DCSC. Accordingly, the recommendation should be made inapplicable to DCSC.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: $0
DLA COMMENTS: Nonconcur. Cannot be quantified.
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: $0
DATE BENEFITS REALIZED: N/A

ACTION OFFICER: Mr. Greg Ellsworth, DLA-P (DSPCO), 44370

DLA APPROVAL: William J. Cassell

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM THE AUDIT

Recommendation Reference	Description of Benefits	Amount or Type of Benefits
A.1.	Performance Results: Assistant Secretary of Defense (Production and Logistics) action to establish a working group to develop guidance that will be used to consistently determine costs and report savings for full screening should improve the cost-effectiveness of the Spare Parts Breakout Program.	Nonmonetary: Establishing guidance to consistently determine costs and report savings will allow for an accurate determination of net savings for the Spare Parts Breakout Program.
A.2.	Performance Results: Assistant Secretary of Defense (Production and Logistics) action to implement a uniform accounting system to calculate and report historical program savings and costs should improve the cost-effectiveness of the Spare Parts Breakout Program.	Nonmonetary: Implementing a uniform accounting system to calculate and report historical program savings and costs will allow for a better comparison of program results between the Services and DLA.
A.3.	Performance Results: Assistant Secretary of Defense (Production and logistics) action to give priority to full screening of spare parts with a high annual buy requirement should improve the cost-effectiveness of the Spare Parts Breakout Program.	Undeterminable at time of audit because benefits of full screening of high value spare parts are based on the current contract value of the spare part broken out.
B.1.	Performance Results: Acquisition Executives for the Army, Navy,	Monetary: Cost Avoidance. The Aviation Systems

SUMMARY ON POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM THE AUDIT
(Continued)

Recommendation Reference	Description of Benefits	Amount or Type of Benefits
	Air Force and Defense Logistics Agency (DLA) action to require screening and coding personnel to adhere to Defense Federal Acquisition Regulation Supplement (DFARS), Supplement No. 6, by updating Acquisition Method Codes in a timely manner, assign Acquisition Method Codes to all parts in inventory that are expected to be procured, request missing or incomplete data, and challenge limited technical data rights restrictions should improve the effectiveness of the Spare Parts Breakout Program.	Command, the Aviation Supply Office, the San Antonio Air Logistics Center, and the Defense Construction Supply Center incurred $90.1 million in additional costs because buyers did not have current breakout information when purchasing spare parts from contractors. We did not perform the necessary audit work at the other 13 buying activities to estimate additional costs incurred. However, we concluded that, because the problem is systemic, similar conditions may exist and that additional costs could have been incurred by the other 13 buying activities. We believe that implementation of the recommendation will result in cost avoidances at each of the buying activities. Recurring Benefit. Sufficient data are not available to determine the amounts of future years benefits.

SUMMARY ON POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM THE AUDIT
(Continued)

B.2.	Commander, Defense Construction Supply Center action to require breakout managers to adhere to DFARS, Supplement No. 6, by recognizing dealers and other nonmanufacturing sources as valid sources of supply when assigning Acquisition Method Codes should improve the effectiveness of the Spare Parts Breakout Program.	Nonmonetary: Recognizing dealers and other non-manufacturing sources as valid sources of supply will allow breakout managers to provide buyers with accurate and current Acquisition Method Codes.
B.3.	Commander, Navy Aviation Supply Office action to establish a mechanism for communicating source-of-supply information, identified on procurement history records, between screening and purchasing activities should improve the effectiveness of the Spare Parts Breakout Program.	Nonmonetary: Establishing a mechanism for communicating source-of-supply information between screening and purchasing activities will allow breakout managers to provide buyers with current information.
C.1.	Performance Results: Assistant Secretary of Defense (Production and Logistics) action to issue guidance to the Military Departments and Defense Logistics Agency that makes source-of-supply data a contract line item subject to the same conditions as other deliverables should improve the effectiveness of the Spare Parts Breakout Program.	Nonmonetary: Issuing guidance to make source-of-supply data a contract line item will allow contracting officers to withhold contract funds from contractors who refuse to comply with source-of-supply data requirements.

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM THE AUDIT
(Continued)

C.2.	Commanders, Army Aviation Systems Command, Navy Aviation Supply Office, San Antonio Air Logistics Center, and Defense Construction Supply Center action to obtain source-of-supply information through prime contractors, contract administration offices, and the Defense Contract Audit Agency when the information has not been previously obtained should improve the effectiveness of the Spare Parts Breakout Program.	Monetary: Cost Avoidance. The Aviation System Office, the San Antonio Air Logistics Center, and the Defense Construction Supply Center incurred $17.4 million in pass-through costs by not buying spare parts from actual manufacturers. We did not perform the necessary audit work at the other 13 buying activities to estimate additional pass-through costs incurred. However, we concluded that, because the problem is systemic, similar conditions may exist and that additional pass-through costs could have been incurred by the other 13 buying activities. We believe that implementation of the recommendation will result in avoidance of pass-through costs at each of the buying activities. Recurring benefit. Sufficient data are not available to determine the amounts of future years benefits.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Office of the Assistant Secretary of the Army (Research, Development and Acquisition), Washington, DC
Army Materiel Command, Alexandria, VA
Automated Logistics Management Systems Activity, St. Louis, MO
Aviation Systems Command, St. Louis, MO
Communications-Electronics Command, Fort Monmouth, NJ
Tank-Automotive Command, Warren, MI

Department of the Navy

Naval Air Systems Command, Arlington, VA
Naval Supply Systems Command, Arlington, VA
Navy Aviation Supply Office, Philadelphia, PA
Navy Fleet Material Support Office, Mechanicsburg, PA
Navy Ships Parts Control Center, Mechanicsburg, PA
Naval Air Technical Services Facility, Philadelphia, PA
Naval Regional Contracting Center, Philadelphia, PA
Marine Corps Headquarters, Arlington, VA
Marine Corps Logistics Base, Albany, GA

Department of the Air Force

Office of the Assistant Secretary of the Air Force (Acquisition), Washington, DC
Office of the Deputy Chief of Staff for Logistics and Engineering, Washington, DC
Headquarters, Air Force Logistics Command, Wright-Patterson Air Force Base, OH
San Antonio Air Logistics Center, Kelly Air Force Base, TX
Sacramento Air Logistics Center, McClellan Air Force Base, CA

Other Defense Agencies

Headquarters, Defense Contract Audit Agency, Alexandria, VA
Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Industrial Supply Center, Philadelphia, PA
Defense Construction Supply Center, Columbus, OH
Defense Contract Administration Services Plant Representative Office, Goodyear, Akron, OH
Defense Contract Administration Services Management Area
Atlanta, GA
Baltimore, MD
Birmingham, AL

ACTIVITIES VISITED OR CONTACTED (continued)

Defense Contract Administration Services Management Area (continued)

Boston, MA
Bridgeport, CT
Buffalo, NY
Cedar Rapids, IA
Chicago, IL
Cleveland, OH
Dayton, OH
Detroit, MI
El Segundo, CA
Englewood, CA
Garden City, NJ
Grand Rapids, MI
Hartford, CT
Indianapolis, IN
Milwaukee, WI
New York, NY
Orlando, FL
Philadelphia, PA
Phoenix, AZ
Pittsburgh, PA
Reading, PA
San Antonio, TX
San Diego, CA
San Francisco, CA
Santa Ana, CA
Seattle, WA
Springfield, IL
St. Louis, MO
Syracuse, NY
Twin Cities, St. Paul, MN
Van Nuys, CA

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Wanda Nichols, Auditor
Herbert Braun, Auditor
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Joanetta Colbert, Auditor
Riccardo Buglisi, Auditor

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Assistant Secretary of Defense (Public Affairs)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Commander, U.S. Army Materiel Command
Commander, Army Aviation Systems Command
Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Commander, Naval Supply Systems Command
Commander, Navy Aviation Supply Office
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Headquarters, Air Force Logistics Command
Commander, San Antonio Air Logistics Center
Auditor General, Air Force Audit Agency

Other Defense Activities

Director, Defense Logistics Agency
Commander, Defense Construction Supply Center
Defense Contract Audit Agency
Defense Logistics Studies Information Exchange
Industrial College of the Armed Forces

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office,
NSIAD Technical Information Center

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Non-DoD Activities (Continued)

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Congressman John R. Kasich